

NOMINATION OF LEON E. PANETTA

4. G 74/9: S. HRG. 103-243

omination of Leon E. Panetta, S. H...

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

NOMINATION OF LEON E. PANETTA TO BE DIRECTOR, OFFICE OF
MANAGEMENT AND BUDGET

JANUARY 11, 1993

Printed for the use of the Committee on Governmental Affairs



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NOMINATION OF LEON E. PANETTA

MONDAY, JANUARY 11, 1993

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Committee met, pursuant to notice, at 9:36 a.m., in room SH-216, Hart Senate Office Building, Hon. John Glenn, Chairman of the Committee, presiding.

Present: Senators Glenn, Levin, Sasser, Lieberman, Dorgan, Roth, Cohen, and Cochran.

Also Present: Senator Domenici.

Staff Present: Doris Clanton, Mark Goldstein, David Plocher, Jane McFarland, Lorraine Lewis, Paul Ellis, Deborah Cohen (Senator Glenn), Susanne Marshall, Jeff Steger, and John Mercer (Senator Roth).

OPENING STATEMENT OF SENATOR GLENN

Chairman GLENN. The hearing will be in order.

Good morning. Today the Committee on Governmental Affairs meets to consider the nomination of Leon Panetta to be Director of the Office of Management and Budget. As most of us here know, Mr. Panetta has distinguished himself in his 16 years as a Congressman from California's 16th District. He has served on the House Budget Committee since 1979 and has been its Chairman since 1988. His work on the Budget Committee in particular has earned him the respect of his colleagues and provided him a depth of knowledge that will be critical to President-elect Clinton in the years ahead.

That Mr. Panetta, knowing so much about the details of the budget and the government, still agreed to be nominated for OMB may be admirable, but may be just a little bit crazy because Leon, in his years helping to negotiate a budget through the Congress and in the give and take over budgets between Congress and the White House, has seen firsthand how tough it is to be OMB Director.

I have said frequently that I believe the job of OMB Director is, after the President, the second most powerful job in the executive branch of government, and Mr. Panetta will have a leading role in shaping national policy.

As OMB Director, Mr. Panetta will recommend where every dollar of our \$1.5 trillion budget is spent and will have a say in how each of the government's hundreds of programs are managed. His recommendations and decisions will have influence over such important issues as the size of the Federal budget deficit, the stability

and growth of the Nation's economy, and, through the quality of Federal management, the performance of our programs and services which in turn will influence the view that Americans have of their government.

Mr. Panetta will have control over the regulatory apparatus of the Federal Government and thus will oversee vital rules for public health and safety, worker safety, and environmental protection. And he will supervise not only what information the government collects from the public, but also what information the government gives to the public.

Mr. Panetta will have one of the toughest jobs in government because his task is to solve the toughest problems of government. And that job is tougher than ever.

David Stockman, the last Member of Congress to become OMB Director, in 1981 faced a Federal debt of \$735 billion. That has since quadrupled, gone way up to well over \$3 trillion. The cost of interest on that debt is now almost \$200 billion a year, more money than is spent by the Federal Government for education, science, law enforcement, transportation, food stamps, and welfare combined.

The deficit alone now stands at \$300 billion. Unless we change course, we will stay there for years to come.

I saw Mr. Stockman interviewed on television this morning, giving advice to our new OMB Director. He said he thought Congress had become inured to the problems of government. I don't think that happens to be the case. He was asked whether he thought that Bush had cooked the books this time around, and he said, "No, it was a very difficult problem." But he said that he thought that the last couple of Presidents had not wanted, to quote him, "to face the facts." So, for whatever that is worth, that is David Stockman's comment this morning on TV.

Last Friday, Comptroller General Charles Bowsher testified before this Committee and laid out a laundry list of the problems Mr. Panetta will face. First, the OMB Director will be charged with bringing down the deficit and helping to formulate plans to restore a still jittery economy. That in itself presents a quandary since excessive or poorly planned deficit reduction not only could impact our economic recovery but impair the services Americans have come to expect from their government.

Mr. Panetta must confront the country's historically low investment rate, yet at the same time balance the need for highways, bridges, and other capital improvements against our concerns with the high deficit.

Then there are the public policy choices and their budget implications that shape the programs and services affecting the lives of Americans in every corner of the country. How will we reform the health care system, cutting costs while ensuring that Americans have access to quality care? What steps must be taken to maintain the integrity of the banking system, provide a safety net for the truly needy, protect against crime and pollution, and reassess our military mission worldwide? These are important issues, and they are accounting for hundreds and hundreds of billions of dollars.

Finally, but most definitely not least, Mr. Panetta has the responsibility for overseeing the management of our vast Federal

Government. This has never been an easy job, but the task has become much more complex as the government and its responsibilities have grown. This Committee spends a great deal of its time focusing on the management of government. And I must tell you, the record of government management is not a good one.

There remains far too little attention in agencies and at OMB to the fundamental principles needed to effectively and efficiently steward the government's obligations and the taxpayers' money.

Today the Federal Government has barely begun to manage its operations in ways that the private sector has been doing for decades. When it comes to personnel, to information management, to financial management, to evaluate program performance, to do strategic planning, or to organize itself for effective customer services, the Federal Government is still grasping at the basics.

Part of Mr. Panetta's job, then, is to bring the government's management capabilities out of the past and to push them into the future. For Mr. Panetta to be successful in cutting the deficit while still providing essential services requires not only cost savings that come from an effectively managed public sector, but a rethinking of how and what government should provide to its people.

With these challenges and problems before us, I believe we are very fortunate to have Leon Panetta as the nominee for OMB Director. He has grappled from a legislative standpoint with many of the hard issues he will now face from the executive branch.

I think the choice of Mr. Panetta as OMB Director speaks volumes about the seriousness with which President-elect Clinton takes his responsibilities to improve our economy, our quality of life, and the state of our government. So we are eager to hear how you, Mr. Panetta, and the Clinton administration plan to handle the problems we face now and in the future. I certainly look forward to working with you as together we try to move our country forward again.

For the record, Committee rules require that an inquiry be conducted into the nominee's experience, qualifications, suitability, and integrity. I think Mr. Panetta would agree that the Committee's investigation has been thorough and extensive. I want to acknowledge Mr. Panetta's cooperation in providing the necessary information for the Committee to complete its investigation.

The Committee has received from the nominee financial statements as well as detailed information on his educational background, employment record, and professional achievements. In addition, Mr. Panetta has responded in writing to a number of pre-hearing questions submitted by the Committee concerning the duties and responsibilities of the OMB Director's position. Copies of the biographical information and pre-hearing responses will be placed in the record as part of this hearing and are available upon request. The financial statements are available for inspection by the public in the Committee office.

Committee investigators have also examined the financial disclosure reports submitted by the Office of Government Ethics to ensure that no conflicts of interest are present.

Finally, I want to note that Senator Roth and I have reviewed the FBI background investigation report and all pertinent matters on Mr. Panetta and have found them satisfactory.

PREPARED STATEMENT OF SENATOR GLENN

Good morning. Today the Committee on Governmental Affairs meets to consider the nomination of Leon E. Panetta to be Director of the Office of Management and Budget.

As most of us here know, Mr. Panetta has distinguished himself in his 16 years as a Congressman from California's 16th District. He has served on the House Budget Committee since 1979 and has been its chairman since 1988. His work on the Budget Committee, in particular, as much as any other, that has earned him the respect of his colleagues and provided him a depth of knowledge that will be critical to President-elect Clinton in the years ahead.

That Mr. Panetta, knowing so much about the details of the budget and the government, still agreed to be nominated for OMB Director is admirable—and maybe just a bit crazy. Because Leon, in his years helping to negotiate a budget through the Congress and in the give and take over budgets between Congress and the White House, has seen first hand how tough it is to be OMB Director.

I've said frequently that I believe the job of OMB Director is, after the President, the second most powerful job in the Executive Branch. Mr. Panetta will have a leading role in shaping national policy.

As OMB Director, Mr. Panetta will recommend where every dollar of our \$1.5 trillion budget is spent and will have a say in how each of the government's hundreds of programs are managed. His recommendations and decisions will have influence over such important issues as the size of the Federal budget deficit, the stability and growth of the nation's economy, and—through the quality of Federal management—the performance of our programs and services, which in turn will influence the view that Americans have of their government.

Mr. Panetta will have control over the regulatory apparatus of the Federal Government, and thus will oversee vital rules for public health and safety, worker safety and environmental protection. And he will supervise not only what information the government collects from the public, but also what information the government gives to the public.

Mr. Panetta will have one of the toughest jobs in government because his task is to solve the toughest problems of government. That job is tougher than ever: David Stockman, the last Member of Congress to become OMB Director, in 1981 faced a Federal debt of \$735 billion. The debt has since quadrupled to more than \$3 trillion. The cost of interest on that debt is now almost \$200 billion a year, more money than is spent by the Federal Government for education, science, law enforcement, transportation, food stamps and welfare, combined. The deficit alone now exceeds \$300 billion and unless we change course, will stay there for years to come.

Last Friday Comptroller General Charles Bowsher testified before this Committee and all but laid out a laundry list of the problems Mr. Panetta will face. First, the OMB Director will be charged with bringing down the deficit and helping to formulate plans to restore a still jittery economy. That in itself presents a quandary, since excessive or poorly planned deficit reduction not only could impact our economic recovery, but impair the services Americans have come to expect from their government.

Mr. Panetta must confront the country's historically low investment rate, yet at the same time balance the need for highways, bridges and other capital improvements, against our concerns with a high deficit.

Then there are the public policy choices and their budget implications that shape the programs and services affecting the lives of Americans in every corner of the country. How will we reform the health care system—cutting costs while ensuring that Americans have access to quality care? What steps must be taken to maintain the integrity of the banking system, provide a safety net for the truly needy, protect against crime and pollution and reassess our military mission worldwide? These are important issues, accounting for hundreds of billions of dollars.

Finally, but most definitely not least, Mr. Panetta has the responsibility for overseeing the management of our vast Federal Government. This has never been an easy job, but the task has become much more complex as the government and its responsibilities have grown. This committee spends a great deal of its time focusing on the management of government, and I must tell you that the record of government management is not a good one. There remains far too little attention in agencies and at OMB to the fundamental principles needed to effectively and efficiently steward the government's obligations and the taxpayers' money.

Today the Federal Government has barely begun to manage its operations in ways that the private sector has been doing for decades. When it comes to personnel, to information management, to financial management, to evaluate program performance, to do strategic planning, or to organize itself for effective customer serv-

ice, the Federal Government is still grasping at the basics. Part of Mr. Panetta's job, then, is to bring the government's management capabilities out of the past, and to push them into the future. For Mr. Panetta to be successful in cutting the deficit while still providing essential services requires not only cost savings that come from an effectively managed public sector, but a rethinking of how and what government should provide its people.

With these challenges and problems before us, I believe that we are very fortunate to have Leon Panetta as the nominee for OMB Director. He had grappled from a legislative standpoint with many of the hard issues that he will now face from the Executive Branch. I think that the choice of Mr. Panetta as OMB Director speaks volumes of the seriousness with which President-elect Clinton takes his responsibilities to improve the economy, our quality of life and the state of our government. So, we are eager to hear how you, Mr. Panetta, and the Clinton Administration, plan to handle the problems that we face now and in the future. I look forward to working with you as together we try to move our country forward again.

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Committee investigators have also examined the financial disclosure reports submitted by the Office of Government Ethics to ensure that no conflicts of interest are present. Finally, I want to note that Senator Roth and I have reviewed the FBI background investigation report and all pertinent matters on Mr. Panetta.

BIOGRAPHY INFORMATION OF CONGRESSMAN LEON PANETTA

Leon Edward Panetta was born in Monterey, California on June 28, 1938 to a family of Italian immigrants. His parents instilled a powerful work ethic in him: he grew up washing dishes in his father's restaurant and later, working on his family's farm. In 1960, he graduated magna cum laude from the University of Santa Clara, and in 1963, he received his law degree from the same university.

After 2 years in the U.S. Army, Panetta went to work for U.S. Senator Thomas Kuchel as a legislative assistant. When Kuchel was beaten 2 years later, Panetta landed a job as special assistant to the Secretary of the U.S. Department of Health Education and Welfare. He was rapidly promoted to the position of Director of the Office for Civil Rights. From 1970-71, he served as executive assistant to New York Mayor John Lindsay, before returning home to his beloved California. Panetta and his older brother then started the firm of Panetta, Thompson & Panetta, where he practiced law for 5 years.

Since 1977, Panetta has been a Congressman from his home district of Monterey, California. In his 16 years in the House, Panetta has come to be universally respected by his colleagues. He is known to be a tireless worker, doggedly pushing his issues, arguing and building consensus. In 1979, Panetta joined the House Budget Committee, and in 1989, he became its Chairman.

Chairmanship of the House Budget Committee during a time of recession and huge budget deficits is certainly a Catch-22 situation. Other Congresspeople, the President, the Cabinet and interest groups continually pressure the House Budget Chairman to expand the federal budget, while at the same time decrying the size of the federal deficit. Panetta has handled the dubious blessing of the chairmanship with aplomb, working tirelessly to cut spending, to reorder priorities and to keep the tenuous balance of the economy. He is a strong advocate of fiscal responsibility, and is often heard saying that we are losing scarce resources by spending \$200 billion annually to finance the deficit. "Whether you care about housing, education, nutrition, health care, or a myriad of priorities we have in this country, the fact is we are losing more of our resources and as a consequence, we are becoming unable to deal with the priority problems."

With his nomination of Panetta to this important office, President-elect Clinton made it clear that he is serious about reduction of the federal deficit. He said that

Panetta will bring integrity to the Directorship of the OMB, and brings to the office "a combination of strong leadership and superb technical skills."

Panetta is also a Member of the House Agriculture Committee, the House Administration Committee and the Select Committee on Hunger. He is the author of many pieces of legislation, including the Hunger Prevention Act of 1988, the Fair Employment Practices Resolution, numerous successful measures to protect environmentally sensitive California coastal areas from offshore oil and gas drilling, and legislation which established Medicare and Medicaid reimbursement of hospice care for the terminally ill.

Panetta is married to the former Silvia Marie Varni. They have three sons, Christopher, 29, Carmelo, 28, and James, 23.

BIOGRAPHICAL AND FINANCIAL INFORMATION REQUESTED OF NOMINEES

A. BIOGRAPHICAL INFORMATION

1. Name: Leon Edward Panetta
2. Position to which nominated: Director, Office of Management and Budget
3. Date of nomination: January 20, 1993 (announced December 10, 1992)
4. Address: Home: 15 Panetta Road, Carmel Valley, CA 93924
Office: 339 Cannon House Office Building, Washington, D.C. 20515
5. Date and place of birth: June 28, 1938, Monterey, California
6. Marital status: Married: Sylvia Marie Varni, July 14, 1962
7. Names and ages of children:
Christopher Edward Panetta, 29 (born: May 10, 1963)
Carmelo James Panetta, 28 (born: July 19, 1964)
James Varni Panetta, 23 (born: October 1, 1969)
8. Education:
 - (1) Monterey Union High School, 1952-56, Graduated June, 1956
 - (2) University of Santa Clara, B.S. Political Science, 1956-60, Graduated June, 1960 magna cum laude
 - (3) University of Santa Clara Law School, J.D., 1960-63, Graduated June, 1963
9. Employment Record: List all jobs held since college including the title or description of job, name of employer, location of work, and dates of employment.
 - (1) January 1977-Present
U.S. Congress: U.S. Representative, 16th and 17th Congressional Districts, California
Chairman, House Budget Committee 1988-Present
Chairman, Subcommittee on Domestic Marketing and Nutrition, House Committee on Agriculture, 1978-88
Chairman, Subcommittee on Personnel and Police, House Committee on Administration, 1980-88
Chairman, Task Force on Domestic Hunger, Select Committee on Hunger, 1980-88
Member, Steering and Policy Committee, 1988-Present
Member, House Majority Whip, 1978-Present
 - (2) October 1971-January 1977
Law Partner: Panetta, Thompson, and Panetta, 232 Madison Street, Monterey, California
General practice with emphasis on law litigation.
 - (3) September 1970-October 1971
Executive Assistant: Mayor, New York City, City Hall, New York
Executive Assistant for intergovernmental affairs responsible for legislative action in Washington, D.C. and Albany, New York.
 - (4) March 1970-September 1970
Author: Co-authored book *Bring Us Together*, with Peter Gall J.B. Lippincott Company, New York
Worked on book describing the work of U.S. Office for Civil Rights during the years 1969-70.
 - (5) January 1969-March 1970
Director: U.S. Office for Civil Rights Department of Health, Education and Welfare, Washington, D.C.
Responsible for enforcement of civil rights laws under the jurisdiction of the Department of Health, Education and Welfare, primarily working on discrimination action against segregated school districts.

- (6) April 1966-January 1969
Legislative Assistant: Senator Thomas H. Kuchel, California, U.S. Senate, Washington, D.C.
Responsible for domestic legislation in the Senator's office with emphasis on budget, agriculture, and civil rights.
- (7) April 1964-April 1966
First Lieutenant: U.S. Army, Intelligence Branch, Fort Benning, Georgia, Fort Holabird, Maryland, and Fort Ord, California
Responsible for intelligence operations in office of Staff G2.
- (8) September 1960-April 1964
Legal Assistant: Keough and Cali Law Offices, Bank of America Building, First Street, San Jose, California
Responsible for legal research and filing of court cases.
- (9) June 1957-August 1960
Clerk: Mediterranean Market, Ocean Avenue, Carmel, California
General clerical duties.
10. Military Service: List any military service, including dates, rank and type of discharge.
First Lieutenant, U.S. Army Intelligence Served April 1964-April 1966, Army Commendation Medal, Honorable Discharge
11. Government Experience: List any advisory, consultative, honorary or other part-time service or positions with Federal, State or Local Governments other than those listed above.
July 1990-1992
Member, Board of Visitors, Defense Language Institute, Monterey, California
September 1972-September 1975
Member, Democratic Central Committee, Monterey County, California
August 1974-November 1975
Counsel, Monterey Regional Park District Monterey, California
Also see service in legislative and executive branch noted in question A-9 above.
12. Previous Appointments: Prior to this appointment, have you ever been nominated for a position requiring confirmation by the Senate? If so, please list each such position, including the date of nomination, Senate confirmation, and Committee hearing if any.
No.
13. Business relationships: List all positions held as an officer, director, trustee, partner, proprietor, agency representative, or consultant of any corporation, company, firm, partnership, or other business enterprise, educational or other institution.
(1) Tenant in common, fifty percent interest, commercial rental building, Panetta Building, 232 Madison Street, Monterey, California
(2) Member, Board of Trustees, University of Santa Clara Law School, Santa Clara, California
14. Memberships: List all memberships and offices held in professional, business fraternal, scholarly civic, public, charitable and other organizations.
(1) Member, inactive, California Bar Association
(2) As a Member of Congress, I serve in an honorary capacity as a member of various charitable and non-profit organizations, e.g. Leadership Monterey Peninsula.
15. Political affiliations and activities
(a) List all offices with a political party which you have held or any public office for which you have been a candidate.
Member, Monterey County Democratic Central Committee, 1972-75
U.S. Representative, 16th and 17th Congressional Districts, California, January 1977-Present.
(b) List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.
Member, Democratic Party
Panetta for Congress, campaign committee supporting my re-election efforts.
(c) Itemize all political contributions to any individual, campaign organization, political party, political action committee, or similar entity of \$50 or more for the past 5 years.
No personal contributions. Campaign committee has made a number of contributions (see FEC reports).

16. Honors and awards: List all scholarships, fellowships, honorary degrees, honorary society memberships, military medals, and any other special recognition for outstanding service or achievements.

Recipient, NEA Lincoln Award, 1969; A. Philip Randolph Award, 1971; Bread for the World Award, 1978, 1980, 1982; National Hospice Organization Award, 1984; Farm Bureau Federation Golden Plow Award, 1988; Food Research and Action Center Award, 1991; Coastal Zone Foundation Coastal and Ocean Management Award, 1991; American Council on the Teaching of Foreign Languages President's Award, 1991.

Honorary Degrees: University of Santa Clara Law School, Monterey Institute of Foreign Languages, University of California at Santa Cruz.

Army Commendation Medal.

17. Published writings: List the titles, publishers, and dates of books, articles, reports or other published materials which you have written. It would be helpful for the Committee to have three copies of each published writing. Please denote any of those for which you are unable to provide copies.

Bring Us Together, J.B. Lippincott Company, 1971 (3 copies attached).

Also attached are articles I have written on a variety of subjects (3 copies of each article attached).

18. Speeches: Provide the Committee with three copies of any formal speeches you have delivered during the last 5 years of which you have copies and are on topics relevant to the position for which you have been nominated.

Most of my speeches are given from notes, but attached are those delivered from text that are relevant to the position for which I have been nominated.

19. Congressional Testimony: Have you ever testified before a Committee of the Congress? If so, please provide details, including dates.

I have testified numerous times during my congressional career. A summary, prepared at my request by the Congressional Research Service, is attached.

20. Selection:

(a) Do you know why you were chosen for this nomination by the President?

Because of my record and experience on budget issues in Congress.

(b) What do you believe in your background or employment experience affirmatively qualifies you for this particular appointment?

Since 1978, I have worked continually on budget issues, as Chairman of Task Force on Reconciliation, member of every Budget Summit in the 1970's, 80's and 90's, House Whip on Budget issues, and Chairman of the House Budget Committee. Responsible for successful Budget Resolutions adopted by the House of Representatives in 1989, 1990, 1991, and 1992.

B. FUTURE EMPLOYMENT REGULATIONS

1. Will you sever all connections with your present employers, business firms, business associations or business organizations if you are confirmed by the Senate?

Yes.

2. Do you have any plans, commitments or agreements to pursue outside employment with or without compensation, during your service with the government? If so, explain.

No.

3. Do you have any plans, commitments, or agreements after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization?

No.

4. Has anybody made a commitment to employ your services in any capacity after you leave government service?

No.

5. If confirmed, do you expect to serve out your full term or until the next Presidential elections, whichever is applicable?

Yes.

C. POTENTIAL CONFLICTS OF INTEREST

1. Describe all financial arrangements, deferred compensation agreements, and other continuing dealings with business associates, clients or customers.

None.

2. Indicate any investments, obligations, liabilities, or other relationships which could involve political conflicts of interest in the position to which you have been nominated.

None.

3. Describe any business relationship, dealing or financial transaction which you have had during the last 10 years, whether for yourself, on behalf of a client, or acting as an agent, that could in any way constitute or result in a possible conflict of interest in the position to which you have been nominated.

None.

4. Describe any activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation or affecting the administration and execution of law or public policy.

None other than those in my role as a U.S. Representative.

5. Explain how you will resolve any potential conflict of interest, including any that may be disclosed by your responses to the above items. (Please provide copies of any trust or other agreements.)

Not applicable.

6. Do you agree to have written opinions provided to the Committee by the designated agency ethics officer of the agency to which you are nominated and by the Office of Government Ethics concerning potential conflicts of interest or any legal impediments to your serving in this position?

Yes.

D. LEGAL MATTERS

1. Have you ever been disciplined or cited for a breach of ethics for unprofessional conduct by, or been the subject of a complaint to any court administrative agency, professional association, disciplinary committee or other professional group? If so, provide details.

No.

2. Have you ever been investigated, arrested, charged or held by any Federal, State, or other law enforcement authority for violation of any Federal, State, county or municipal law, regulation or ordinance, other than a minor traffic offense? If so, provide details.

No.

3. Have you or any business of which you are or were an officer ever been involved as a party in interest in any administrative agency proceeding or civil litigation? If so provide details.

As an attorney and member of my law firm, Panetta, Thompson, & Panetta, we were the subject of a civil action brought by a client that was dismissed by the court as being without merit. The case involved a complaint by the client that the firm had failed to file a timely action in federal court based on a rejected Equal Employment Opportunity Commission complaint. The matter was dismissed (case number 511737-6 Alameda Superior Court, dismissed August 1979).

4. Have you ever been convicted (including pleas of guilty or nolo contendere) of any criminal violation other than a minor traffic offense?

No.

5. Please advise the Committee of any additional information, favorable or unfavorable, which you feel should be considered in connection with your nomination.

Not applicable.

OFFICE OF THE PRESIDENT-ELECT AND VICE PRESIDENT-ELECT

STATEMENT OF PRESIDENT-ELECT BILL CLINTON

DECEMBER 10, 1992

As Director of the Office of Management and Budget, Congressman Leon Panetta will bring integrity to this critical office and will restore the confidence of the American people and their elected representatives that OMB is shooting straight with the Congress, shooting straight with the American people and doing its best to help us not only to have a responsible budget, but to manage the massive American government in a different and better way than ever before. As Chairman of the House

Budget Committee, Leon Panetta brought a unique combination of strong leadership and superb technical skills. With Leon Panetta as OMB Director, I believe that agency can play the pivotal role we have to have it play in the swift and effective implementation of our economic plan.

I am also delighted to announce that Alice Rivlin, the former Director of the Congressional Budget Office and one of our Nation's most respected budget experts, has agreed to serve as Deputy Director of the Office of Management and Budget.

Together, Alice and Leon promise to be the most dynamic team in the history of OMB, and to restore the confidence of the Congress that the executive branch is going to be a responsible partner in making the budgets of this country.

PRE-HEARING QUESTIONS FOR LEON E. PANETTA TO BE DIRECTOR OF THE OFFICE OF MANAGEMENT AND BUDGET

I. NOMINATION PROCESS AND POTENTIAL CONFLICTS

Question 1. Were any conditions, expressed or implied, attached to your nomination to be Director of the Office of Management and Budget?

Answer: No.

Question 2. Have you made any commitments with respect to the policies and programs you will attempt to implement as Director of OMB? If so, what are they?

Answer: I have made no such commitments.

Question 3. Are there any issues involving OMB from which you may have to disqualify yourself? If so, please explain.

Answer: I believe there are no issues involving OMB from which I will be required to disqualify myself.

II. ROLE AND RESPONSIBILITIES OF OMB DIRECTOR

Question 1. What do you consider your primary responsibilities and priorities to be as OMB Director?

Answer: My primary responsibilities and priorities will involve carrying out the principal functions of OMB:

- Managing the preparation of the budget of the United States;
- Advising the President on the budget and economic policies for the Nation;
- Supervising the administration of the budget;
- Seeking to improve governmental efficiency and effectiveness through improved management of the government (i.e., improving both general management and Federal financial management systems);
- Overseeing Paperwork Reduction Act activities;
- Overseeing the regulatory review, legislative coordination, and Executive Order coordination functions; and
- Contributing to the implementation of improved government-wide procurement policies and practices.

Question 2. Within OMB the two Deputy Director positions and the Administrators of the Offices of Federal Procurement Policy and Information and Regulatory Affairs are filled by the President with the advice and consent of the Senate. What role do you anticipate playing if confirmed as Director of OMB in the selection of individuals for these positions?

Answer: As you know, President-elect Clinton announced his intention to nominate Dr. Alice Rivlin as Deputy Director of OMB on the same day that he announced his intention to nominate me as Director. I believe that she will serve the Nation very well.

I would anticipate advising the President on the selection of the individuals for the remaining OMB positions that are Presidentially appointed with Senate confirmation. I would strive to ensure that all of the persons appointed for such positions are highly capable and possess the following attributes: a commitment to public service; dedication to the job; respect for and understanding of the role of the President and the Executive Office in which he or she will serve; education and experience in areas pertinent to the responsibilities he or she will have; the ability and commitment to work hard; the ability to balance competing interests; and an understanding of how to manage and work effectively with

people. Final responsibility for appointment for these positions, of course, rests with the President.

Question 3. What role do you anticipate playing in the selection of individuals for appointive positions in OMB which are not subject to Senate confirmation?

Answer: As Director of OMB, I would be responsible for appointing such OMB officials. As indicated in the preceding answer, I would seek to ensure that all of the individuals appointed to senior positions at OMB meet the same standards described in my response to the previous question. The qualifications of political appointees will, of course, be subject to White House review.

Question 4. In the past, the Deputy Director of OMB has had broad responsibility for OMB budget and management functions. With the enactment of the Chief Financial Officers Act of 1990, however, the management functions were consolidated under a new Deputy Director for Management. Yet there remains a single position of Deputy Director. Please describe your plans for the responsibilities of, and the relationship between the Deputy Director and the Deputy Director for Management.

Answer: Under OMB's governing statute (as amended by the CFOs Act), the Deputy Director carries out the duties and powers prescribed by the Director and acts as the Director when the Director is absent or when the office of Director is vacant. The Deputy Director for Management, subject to the direction and approval of the Director, performs functions related to financial and general management, and any other functions prescribed by the Director.

While the focus of the Deputy Director for Management is, of course, management, that function cannot be isolated from the other functions of OMB. Similarly, the Deputy Director's duties are not statutorily confined to non-management areas. While I have no specific plans for these positions beyond the statutory requirements, I would expect my deputies to work closely together.

Question 5. In the past, OMB's career staff has been characterized as providing "neutral competence" in its advice to the President. Now, however, OMB is perceived more as an Administration advocate than as a source of objective analysis. What are your views on this perception? Will you undertake any actions to rebuild OMB's reputation for neutral competence?

Answer: President-elect Clinton has said it is important that the American people and their elected representatives be able to have confidence that OMB is "shooting straight with the Congress and shooting straight with the American people." I am committed to that objective.

I am well aware that concerns have been raised about a lack of objectivity. In my experience, the OMB career staff has proven to be highly capable, and I expect that to continue. In addition, as a Member of Congress, I have always asked my staff to give me their honest and objective advice and assistance. I will continue this practice with respect to the staff at OMB, if I am confirmed.

Question 6. Do you have any plans to reorganize OMB or to reorder its priorities? If so, what type of changes would you make?

Answer: At this early date, I do not have any immediate plans to reorganize OMB. We will be reviewing the organization of OMB and the current allocation of internal resources to ensure that they are in accord with the Clinton Administration's policies and priorities and that OMB is able to meet its fundamental responsibilities. Depending on the results of this review, some organizational changes and reordering of priorities could be appropriate.

Question 7. President-elect Clinton intends to create a National Economic Council—similar in scope to the National Security Council. What do you view your role (and that of OMB) to be on the Council? What will be its relationship to the Council of Economic Advisors and the Treasury Department? What would be the role of this Council in Federal budget deliberations?

Answer: I am not prepared to say at this point precisely how the National Economic Council will function. OMB would, of course, work cooperatively with the Council and assist in ensuring that the Council works smoothly and efficiently.

III. ECONOMIC AND BUDGET POLICY

Question 1. What are your projections for economic growth and the unemployment rate over the next 4 years if baseline budget policies are maintained?

Answer: Until I have had an adequate opportunity to work with staff at OMB, I will not be in a position to make specific economic projections. However, at

this time, I can report that most forecasters expect moderate growth, in the 2–3 percent per year range, accompanied by a steadily declining unemployment rate. Most forecasters also expect the expansion to be more subdued than past recoveries because of slow growth in our export markets and the lingering structural problems inherited from the 1980's—the large Federal deficit and financial pressures on many state and local governments, excessive private sector indebtedness, the overbuilding of commercial real estate, expected personnel shakeouts in our service industries following similar downsizing at many manufacturing firms, weak financial institutions, and slow productivity and income growth.

Question 2. What new budget policies do you propose to affect economic growth and unemployment, and how will these policies change the economic forecast? How will these policies affect the budget, and how might they affect prospects for renewed inflation?

Answer: President-elect Clinton has not yet made final decisions on the components of his economic plan and his budget submission. Therefore, it is not possible for me to relate what budget policies the new administration will propose to affect economic growth and unemployment. The goals of President Clinton's budget will include spurring both short- and long-term economic and job growth while keeping inflation under control. In the short term, since the economy is operating substantially below capacity and domestic firms face extraordinary competition from imports, efforts to spur economic and job growth are likely to have a minimal impact on inflation. In the long term, it is my hope that the new administration's proposals to promote growth will add to capacity and, by expanding supply, hold down inflation.

Question 3. What are your views on reducing the unemployment rate in the next 4 years?

Answer: The unemployment rate has dropped from a high of 7.8 percent in June, 1992, to 7.2 percent in November. That is still too high; unemployment in 1992 was higher than any year since 1984. It has lagged because the rate of recovery has been relatively slow. It is important to note that despite the drop in the unemployment rate, significant growth in the number of jobs has not occurred. But the drop in the unemployment rate is a promising development, and it is my expectation that the growth policies to be implemented in the Clinton Administration will cause substantial gains in employment and further reductions in the rate of unemployment.

Question 4. For the past two decades U.S. productivity growth has been below historical norms, resulting in slower growth of private income and public revenues. What policies do you propose to accelerate productivity growth? How will these policies affect the budget?

Answer: Strong productivity growth is essential to restoring growth in the Nation's living standards and generating tax revenues to reduce the Federal budget deficit. But in recent years, productivity growth has lagged. From 1948 to 1973, labor productivity grew an average of 2.5 percent annually; . . . since then, it has averaged just 0.8 percent. Had the earlier rate of productivity growth been maintained over the past two decades, it would have had a dramatic impact on real disposable income and therefore on the nation's standard of living and on the Federal deficit.

In the last 2 years, productivity growth has improved in manufacturing, but it was achieved by shedding workers. Outside of manufacturing, we have not had much productivity growth.

For all productivity, the best source of growth is technological progress. To facilitate that and accelerate the nation's productivity growth, President-elect Clinton has proposed a number of policies. These include: (1) shifting Federal priorities toward public investment in the education and training of our people and in research, equipment, and infrastructure; (2) providing targeted incentives for business investment in new plant and equipment; and (3) reducing the Federal deficit to free up more resources for private capital formation.

Faster productivity growth would have a noticeable effect on the deficit. For example, by some estimates, adding one percent per year to productivity growth would lower the deficit by nearly \$325 billion over 6 years, including \$112 billion in the sixth year.

Question 5. Please explain how you see fiscal policy interacting with the United States monetary and trade policies under President Clinton. Please explain what you foresee your role to be as Director of OMB in such interactions.

Answer: Fiscal, monetary, and trade policies are interconnected. A reduced Federal deficit is conducive to lower long-term interest rates, an increased rate of capital formation, and an improvement in international competitiveness. Monetary policy can be employed to offset the potentially contractionary effects of deficit-cutting actions. Lower deficits enable the Federal Reserve to hold down interest rates with less concern that this will ignite a higher rate of inflation.

By the same token, because of the fear of igniting inflation, higher deficits make it difficult for the Federal Reserve to hold down rates with an easier monetary policy. Thus, irresponsible fiscal policy puts the Federal Reserve in the position of choosing slow growth or high inflation, which the Fed believes inevitably results in slow growth.

The association between budget and trade deficits is indirect, and there are other forces that affect the relationship between the two. The sudden jump in budget deficits during the early 1980's coincided with high real domestic interest rates that led to a sharp appreciation in the dollar, which helped cause a widening of the U.S. trade deficit. Other factors have helped narrow the trade deficit, but large deficits continue to have a negative impact. Most experts foresee an inevitable growth in the trade deficit without budget deficit reduction, and that is what is happening now.

As Director of OMB, my role in addressing these issues would primarily be to advise the President in developing and implementing responsible and credible fiscal policies so that the Federal Reserve can count on deficit reduction and therefore can ease its grip on money growth.

Question 6. What are your views on the impact of the Federal budget deficit on the U.S. economy, both in the short and long-term?

Answer: In 1981, the nation embarked on a dangerous experiment in fiscal policy. That "riverboat gamble" has failed. One of the results has been persistent, large budget deficits. The national debt has quadrupled, the cost of interest on the debt has grown from 10 percent of annual expenditures to nearly 15 percent, and we have been robbing the resources we need for public and private investment in our economy and in our nation's future. Unfortunately, unless we act, the long-term outlook is for deficits to rise even further.

In the short term, excessive budget deficits, while sometimes stimulating the economy, place upward pressure on real interest rates which ultimately slows economic growth.

In the long term, deficits divert critical resources from the private capital formation needed for long-term economic growth. Slower economic growth means smaller increases in the standard of living. Deficits also hamper the nation's ability to address serious national problems, preventing the very investments needed to help create future economic growth. In effect, deficits and the growing debt force us to finance present—and past—consumption at the expense of future growth.

If we do not address the deficit issue, our children and their children will suffer.

Question 7. Some observers maintain that cutting the deficit will require a tax increase. In addition to deficit reduction, President-elect Clinton has proposed new spending initiatives amounting to billions of dollars. Some tax increases have been suggested—such as a higher marginal tax rate on upper-income taxpayers—but critics claim these revenues will not be sufficient to pay for deficit reduction and any new program initiatives. What revenue increases do you propose to pay for the Clinton program over the next 4 years?

Answer: If we are serious about reducing deficits in the long term, about making needed investments, and about providing targeted tax incentives, we will need a broad and balanced deficit reduction package. Only a package that asks for shared sacrifice, that asks all to do their part but does not demand too great a contribution from any one element of our society, can be economically and politically successful.

For that reason, while control of spending must make up the preponderance of deficit reduction, additional revenues are also necessary.

As for what the new Administration will propose, the specifics of the budget proposals that President-elect Clinton will make to the country and to the Congress have not yet been decided upon. If I am confirmed as Director of the Office of Management and Budget, it will be my responsibility to present to the President a wide range of budget options for achieving the goals that he seeks for our nation. As your question notes, President-elect Clinton has already suggested the possibility of raising income tax rates for the wealthy, and that is likely to be among the options presented to him.

I would like to repeat, however, that spending savings, not revenue increases, should be the primary means of reducing the deficit.

Question 8. If it becomes necessary to seek additional revenue—beyond that which you foresee today—what kinds of revenue increases would you favor looking at? What are your views on and would you recommend increased consumption taxes as opposed to income taxes?

Answer: Since no decision has been made on how much in additional revenues the new Administration will propose, it is premature to suggest what revenues might be needed.

In general, it is my view that changes in the nation's tax structure over the past decade or more have made the income tax somewhat less progressive. As previously noted, President-elect Clinton has suggested the possibility of raising income tax rates for wealthy taxpayers to produce needed revenues and to restore greater equity to the tax code.

As for consumption taxes, there are important questions about the possible regressivity of such taxes. It is also important to note that, in the case of a broad consumption tax, which some have proposed, there are very real concerns about administrative costs and complexity, as well as encroaching on a traditional revenue source of States and localities.

Nevertheless, some economists believe that our current tax structure relies too heavily on taxation of income-producing activities—work, saving, and investment—that promote long-term growth. This tends to discourage such activities and therefore encourage present consumption. Those economists suggest that a greater reliance on consumption taxes would turn our society more towards savings and investment for the future and away from consumption for the present.

In addition, some note that targeted consumption taxes can be used to discourage activities we wish to curtail as well as to help pay for costs that society must bear as a result of those activities, and that the regressive impact of consumption taxes can be ameliorated through other tax measures.

I am studying these competing arguments regarding consumption taxes.

Question 9. Under the 1990 Budget Agreement, a significant percentage of the savings in Federal spending are due to be captured in fiscal years 1994 and 1995. What efforts will you make to ensure that these savings are achieved?

Answer: The 1990 budget agreement achieved savings by capping discretionary spending in FY 1991 through 1995 and by increasing revenues and reducing mandatory spending. The deficit reduction from the revenue increases and mandatory spending savings is protected by the pay-as-you-go provisions of the Budget Enforcement Act, while discretionary spending caps are in effect for FY 1994 and 1995. Adhering to the 1990 budget agreement will require the same kind of vigilance that has marked the successful implementation of the agreement thus far. As one who was actively involved in the development of that agreement, I consider this a very high priority.

Question 10. What budget and tax policies are most effective in increasing our nation's economic competitiveness?

Answer: During the 1980's, the country ignored the future to pay for the present. Public and private debt skyrocketed, as the Federal Government consumed far more than taxpayers were willing to pay for; businesses incurred huge debt to engage in behavior—primarily mergers and acquisitions—that had little or no positive impact on our competitive posture; and families adopted an ethic of consumption based on borrowing, rather than saving for the future. In all sectors, the saving needed for capital formation was inadequate.

These policies and attitudes were damaging to the nation's economic competitiveness. Turning around from this obsession with the short term to a long-term perspective will not be easy, but the President and the Congress must lead the way. We must realize that, just as previous generations thought less about

themselves than about their children's future, it is time for us to remember our obligation to our children and to future generations.

To change the focus from the short term to the long term, there are three things we need to do.

First, we need to reduce long-term budget deficits, and thereby increase national saving, by facing the inevitable difficult decisions about mandatory spending programs, about defense, domestic, and international discretionary spending programs, and about taxes.

Second, we need to make targeted investments in our society and our economy that will promote long-term growth. On the spending side, these would include investments in human capital, such as education, job training, and health care, and in public physical capital, such as highways and other infrastructure. On the tax side, we need targeted measures to encourage long-term investment.

Third, we need to implement major reforms in key social policy areas, such as health care and welfare. Health care costs, in particular, are imposing an enormous burden on public and private resources, and there is no end in sight to their growth. Despite this overspending, more than 30 million Americans do not even have access to the health care system. We must control costs to make health care affordable for all, and to stop costs from sending deficits completely out of control, and we must ensure that every American has access to health care.

Question 11. How important do you view the lack of private savings in our country relative to our major economic competitors and what policies do you believe should be encouraged to increase private savings?

Answer: The United States has by far the lowest household saving rate among the G-7 countries. Combined with the large fiscal deficit, net national saving as a share of GDP is also the lowest among our major competitors (table below). This lower saving is a key factor in the inadequate productivity growth of the last two decades, which has contributed to slow growth and inadequate increases in the standard of living.

Raising the level of overall national saving is absolutely critical, and reducing Federal deficits is the single most effective way of doing that. Increasing private saving is also an important element in improving national saving. It is, however, very difficult to predict the impact of government actions designed to stimulate private saving. It is possible that tax incentives can encourage some saving, but if those incentives end up increasing the deficit, the economic benefit might be minimal, or even negative. Thus, if it is felt that such incentives can be helpful, it is critical that they be carefully targeted to minimize the impact on the deficit while maximizing the incentive provided.

Comparison of G-7 Saving Rates in 1990

	National Saving as Percent of GDP	Household Saving as Percent of Disposable Income
Japan	34.4	13.6
Germany	25.0	13.9
France	21.1	12.2
Italy	19.5	16.1
Canada	18.0	10.4
United Kingdom	15.6	9.0
United States	14.3	5.2

Question 12. Revenues currently represent 18.6 percent of GDP. How much as a percentage of GDP should the government collect in revenues? What percentage of GDP do you think should represent a ceiling for revenues?

Answer: I am not certain that there is a specific ideal percentage of GDP which the Federal Government should seek to collect in revenues. Except in extreme circumstances, the percentage has rarely exceeded 20 percent. At this time, the greater concern is the difference between the percentage of GDP collected in revenues and the percentage of GDP represented by Federal spending—a good measure of the economic impact of the deficit. As I have said, I believe spending savings must be the primary source for reducing that difference.

However, I do not believe it makes sense to place a specific ceiling on revenues as a percentage of GDP. For one thing, economic slowdowns can distort such a formula. What is important, instead, is to do what we can to maintain strong economic growth in the short and long term so that revenues remain at a reasonable percentage of GDP.

Question 13. In your testimony before the House Rules Committee on H.R. 5676, you stated:

"The reality is that no investments can be made until we establish a credible and enforceable deficit reduction path. Once that is accomplished, by this bill or some other legislation, we can proceed to a debate on investments with the confidence that they will be paid for, that they will not simply balloon the deficit over the long run."

In light of this statement, would you continue to oppose any additional investment spending prior to enactment of a deficit reduction package?

Answer: The incoming Administration, again, has made no final decisions on its proposed economic package. I believe that budget deficits are the single most important long-term economic issue facing our country. However, if the after-effects of the recession demand short-term economic stimulus in order to get the economy moving at full steam again, such stimulus need not be inconsistent with a commitment to long-term deficit reduction.

There are several criteria, however, that such a stimulus package should meet: (1) the increase in the deficit should truly be short-term; (2) investments, whether on the spending or tax side of the ledger, should be carefully targeted and consistent with the long-term economic investment goals of the Administration; and (3) the package should be tied to a serious long-term deficit reduction package which would pay for the stimulus in the long run while also reducing the long-term deficit.

I would add that if the economy is too weak right now for tough deficit-reduction measures which take effect immediately, those measures can be adopted now with effective dates set somewhat later, when the short-term strength of the economy has been restored. But when those measures are enacted, there should be no doubt that they will in fact be implemented.

Question 14. What are your views on the savings possible from military downsizing? What impact will this downsizing have on DOD-related programs, such as Department of Energy weapons production?

Answer: Developments in the Soviet Union and the rest of Europe have made it possible to make major changes in our nation's defense posture. The political and economic reforms taking place in the formerly communist world, combined with the conclusion of major conventional and nuclear force treaties, have plainly reduced the amount of resources it takes to maintain a strong national defense that enables us to defend our nation and our interests around the world.

The first 3 years of the 1990 budget agreement have already produced substantial defense savings. In addition to the savings established by the defense discretionary appropriations caps set in that agreement, further savings have already been achieved as additional changes have taken place and made reductions prudent. The fiscal year 1993 appropriation is \$14 billion below the budget authority cap and \$9.7 billion below the outlays cap set in the 1990 agreement, and it is clear that greater savings than originally envisioned can continue to be achieved.

President Clinton has not made a decision on what specific levels of defense spending he will propose for fiscal year 1994 and beyond. However, downsizing must be at a pace that enables the nation to maintain a level of defense that leaves no question as to our ability to protect our nation and our interests.

It is my understanding that no nuclear weapons are expected to be produced in the next 10 years. This will allow the Department of Energy to consolidate facilities, maintain remaining weapons, and prepare for future production, if needed.

Question 15. What impact will the elimination of the "fire wall" in the 1990 Budget Enforcement Act have on your plans for domestic spending proposals?

Answer: Discretionary spending has been limited under the 1990 budget agreement in fiscal years 1991, 1992, and 1993 by budget authority and outlay caps on each of three separate discretionary spending categories: defense, do-

mestic, and international. Under the agreement, savings achieved in any of those categories have not been available to spend in another category.

Under the agreement, the caps on three separate categories will be replaced in fiscal years 1994 and 1995 by single, overall discretionary budget authority and outlay caps. Thus, the "walls" between the three categories will no longer exist.

The estimated 1994 budget authority cap is \$16.7 billion, or 3.2 percent below the 1994 baseline of 1993 appropriations plus inflation. For outlays the estimated cap is \$16.2 billion, or 2.9 percent, below baseline. The end of categorical walls will certainly be a factor in making decisions on discretionary spending in the fiscal year 1994 budget, but because no decisions have been made as to what level of spending to request in any of the discretionary spending categories, it is difficult to be specific about the impact on domestic spending.

Question 16. Do you believe that it is necessary to reduce entitlement spending below the current baseline to achieve the deficit-reduction goal? What specific cuts in entitlements do you propose?

Answer: In 1992, entitlement programs comprised 47 percent of the Federal budget. By 1998, they are projected to be 51 percent of the budget. If we are to have any hope of reducing budget deficits in the long run, we will have to slow down the rapid growth of mandatory spending. As with revenues, it would be my responsibility as OMB Director to present to the President the broadest possible options from which to make decisions on how to control mandatory spending. Clearly, since health care entitlements account for 61 percent of the anticipated growth in entitlements between 1992 and 1998, controlling health care costs must be high on the agenda. However, President-elect Clinton has not yet made decisions on these issues, and so I have no specific proposals for savings to present at this time.

Question 17. Poverty has been growing throughout the last decade, and the recent recession has exacerbated the problems faced by many low-income Americans. In any deficit reduction approach, would you propose measures that protect programs that assist the least well-off?

Answer: Throughout my years of working in the Congressional budget process and negotiating with Administrations on budget agreements, I have fought hard to protect programs aimed primarily at low-income recipients from unfair cuts. It has always been my view that these individuals and families had suffered enough from earlier budget cuts and from difficult economic conditions. No program should be exempt from examination for wasteful spending. But I would be extremely reluctant to ask for greater sacrifices from those who are already the most vulnerable in our society.

Question 18. The costs of the health-care programs—Medicare and Medicaid—are growing rapidly; the Congressional Budget Office (CBO) projects them to rise from 3.4 percent of GDP in 1992 to 6.1 percent in 2002 under current policies. Do you believe that it is necessary to restrain the growth of these costs? If so, how would you propose to do it?

Answer: It is absolutely essential that the President and the Congress establish very clearly as one of their first priorities the control of health care costs in this country. It is critical for the nation's economy, critical for the well-being of our people, and critical for budgets at every level of government, including the Federal Government. Health care costs are the primary contributor to the projected substantial increase in Federal budget deficits in the latter part of this decade. They must be brought under control.

President-elect Clinton has pledged that health care reform will in fact be a top priority of his administration, and he has made control of health care costs one of the primary goals of such reform. While he has not yet announced a health care reform proposal, I can assure the Committee that it will be one of the major policy initiatives of his administration.

Question 19. Which do you believe would be the more cost-effective way to stimulate faster income and productivity growth: (1) greater Federal spending on physical and human capital (which might induce greater private investment); or (2) tax preferences for private investment such as investment credits or accelerated depreciation? Please explain.

Answer: There is no either/or answer to this question. Both greater Federal spending on physical and human capital and tax preferences for private investment can be cost-effective ways of stimulating faster income and productivity

growth. However, it is the job of the Administration and the Congress to target measures as carefully and intelligently as possible to achieve the desired result. Even if a particular measure helps to achieve the goal that is being sought, it may do so in an unnecessarily costly way if it is not carefully targeted. A well-targeted incentive or investment, however, can achieve the desired result with the hoped-for dividend in both short- and long-term growth.

Given our concern about budget deficits, we must always weigh whether we can afford a particular investment or tax preference. We must target so as to minimize costs or revenue losses, and, generally, we must fit these measures into a framework which ensures that they are paid for. Those standards, in my view, are more important than whether the policy is a tax or spending approach.

Question 20. Do you agree that we need to increase research and development activities in this country? If so, what specific role should OMB play in this regard?

Answer: Increasing research and development activities is an important component of our efforts to improve the nation's economic competitiveness. The vast majority of such activities takes place in the private sector, but government can play a role in encouraging such activities through targeted tax incentives, such as the research and experimentation tax credit. In addition, we must examine existing Federal research and development programs to determine whether they can be targeted more effectively to the kinds of efforts which can spur the nation's long-term competitiveness. For example, at least some of our defense research efforts should emphasize "dual-use" research, with appropriate results disseminated to the non-defense sector. The role of OMB in this process should be to recommend the most cost-effective ways of increasing and better targeting the nation's public and private research and development efforts.

IV. BUDGET PROCESS

Question 1. In what form will President Clinton submit his first budget? Will its structure parallel those of other budgets submitted by Presidents in their first year in office? Do you intend to follow any particular model?

Answer: President-elect Clinton is facing a unique circumstance for a new President. In the past, outgoing Presidents have submitted complete budgets. However, because the 1990 budget agreement moved back the deadline for submitting budgets to February 1, President Bush is under no legal obligation to submit a complete budget, and he has decided not to. That responsibility, therefore, has been left to the new administration.

Because of these unique circumstances, it is unlikely that the Clinton budget will follow exactly any previous model for a new President. However, no final decisions have been made about the exact form the new budget will take. Obviously, this is one of the most urgent matters facing the new administration.

Question 2. Based on your experience in Congress, how essential do you see the President's budget proposal as the first step in guiding us toward a balanced budget?

Answer: One of the worst developments for the budget process over the past decade has been the growing irrelevance of the President's budget submission. The President's budget should be the realistic starting point for the congressional budget process. It should be an economically honest, politically realistic blueprint which the Congress, working with the President, can use to establish spending priorities, determine how initiatives are to be paid for, and decide how and how much deficits are going to be reduced.

Unfortunately, for too long, Presidents' budgets have been little more than political documents, often providing less than honest economic and budget projections, and neither serving as nor even intended to be a serious starting point for the congressional budget process. The harsh term "dead on arrival" has been applied to these budget submissions, and Presidents have done little to alter that perception. As Chairman of the Senate Committee on the Budget, Senator Sasser can readily confirm what my experience has been as Budget Chairman in the House and as a Committee Member and active participant in the budget process before that. In developing concurrent resolutions on the budget each year, we have essentially had to start from scratch. We have been able to use Presidents' budgets as little more than points of comparison, not as a foundation for our work. And what has emerged at the end of the budget and appropriations process has borne little resemblance to the President's original submission.

It is my hope that those days are over. It is my intention, and that of the President-elect, to submit budgets that are honest, that realistically engage the Congress in the business of budgeting and governing, and that come out in recognizable form at the end of the process. I believe that is absolutely essential. The budget process has suffered a great deal because of the lack of political and economic credibility of the President's budget. That credibility must and will be restored.

Question 3. In terms of the specific budget procedures adopted to reduce the budget deficit, could you comment separately on the effectiveness of the Balanced Budget and Emergency Deficit Control Act of 1985, the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987, and the Budget Enforcement Act of 1990. Given your views, how do you propose to make a credible deficit-reduction plan and assure that it will actually be carried out?

Answer: The deficit control measures of 1985, 1987, and 1990 were all efforts to deal with the enormous deficits created by the budget policies enacted in the early 1980's. Frankly, if Presidents and Congresses had been willing to step up to their responsibilities and had taken adequate steps to control deficits earlier, these measures would never have been needed. It has always been my view that changes in the budget process mean little without the political will to enforce them. What really counts is not just changing the process but actually reducing the deficit, and to the extent that these process changes were accompanied by actual measures to reduce the deficit, they have been far stronger for that. With regard to the process changes themselves, the reforms embodied in each of these measures have had both strong and weak points, and I can summarize them briefly.

The Balanced Budget and Emergency Deficit Control Act of 1985 and the Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987—the original Gramm-Rudman-Hollings law and Gramm-Rudman-Hollings II—were positive forces in that they established the principle of a tough enforcement mechanism that put pressure on both the President and the Congress to reduce the deficit.

They had two primary, and paradoxical, faults. On one hand, the enforcement mechanism of sequestration was a brutal and rather blunt instrument. Because it exempted a number of programs from automatic spending cuts, it fell even more harshly on the remaining non-exempt programs. And because the deficit targets established by the laws were not adjusted for fluctuations in the nation's economic performance, they sometimes created targets that were politically impossible, and sometimes economically unwise, to reach. Ironically, though, these seemingly harsh laws provided so many loopholes—such as their emphasis on single-year rather than multi-year targets—that goals could sometimes be reached by the use of gimmickry and rosy economic scenarios, and that is too often exactly what occurred. And when gimmickry was not enough, the GRH targets were amended to make them achievable. In addition, the inconsistent treatment of programs under sequestration reduced pressure on advocates of exempt programs to cooperate in the deficit-reduction process. All of these developments ultimately reduced the credibility of the budget process.

The Budget Enforcement Act of 1990 was an effort to address some of the previous problems in the budget process, and, unlike the previous measures, has accomplished its primary goals. First, it was geared to deficit reduction amounts rather than fixed deficit targets. Thus, it allowed for adjustments based on fluctuations in the economy, which was particularly fortunate in light of the recent recession. Second, it established enforceable discretionary spending caps and a pay-as-you-go process for mandatory spending programs and tax measures. This established accountability in each area of the budget and, for the first time, established the principle that any new programs and tax cuts had to be paid for—a critical advance in efforts to control deficits. Finally, and in some ways most importantly, it focused not on 1-year targets but on 5-year targets. No longer could the costs of new programs or tax cuts be artificially trimmed in the first year only to balloon in later years.

This process has worked remarkably well. The agreement called for nearly \$500 billion in deficit reduction, and it is on its way toward reaching that target. Recent increases in the deficit have resulted not from congressional or presidential action but from the weak economy and the costs of the savings and loan bail-out. The BEA's primary weakness is that it does not prevent increases in mandatory spending resulting from increased costs and other factors. Obviously,

the most serious problem in this regard is the exploding cost of health care entitlement programs and the continual downward reestimates of revenues.

As for the second part of the question, I go back to the point I made earlier. No matter how many process changes we make, deficit reduction does not occur without the political will to make difficult decisions. The budget agreement worked because Congress and the President made difficult decisions up front about entitlements and taxes, and because the political will was there to enforce the discretionary spending caps and the pay-as-you-go requirement. I am confident that President Clinton will propose specific budget policies that will produce the kind of long-term deficit reduction we need. But it will not be accomplished unless both the administration and the Congress have the political will to make tough choices.

Question 4. You were a cosponsor of H.R. 2164 in the 102nd Congress, the Expedited Consideration of Proposed Rescissions Act. Do you still support this approach to granting the President expanded rescission authority, or would you prefer enactment of some alternative legislation in the 103rd Congress?

Answer: It has long been my view that an effective rescission process is a critical tool for both the President and the Congress to control spending and reduce deficits. To be effective, the process should ensure that a President can obtain swift consideration of his proposed rescissions. However, the process should not substantially shift constitutional authority for spending decisions. That is neither necessary nor desirable. I cosponsored and voted for H.R. 2164 because I felt that it met both of these criteria. President-elect Clinton has suggested that the proposal might form the basis for a resolution of the issue of how Presidents and Congresses can resolve differences over individual spending items without vetoes of entire measures. I agree with that, and, while this measure may not be the final word, it is my hope that the Congress and the new Administration can come to an agreement on strong, sensible reform legislation.

Question 5. Do you think the President should be required to sign the budget resolution?

Answer: While we should encourage cooperation between the President and Congress in the budget process, I do not believe it is necessary to require that the congressional budget resolution be signed by the President. The budget process depends on cooperation, and if a President and a Congress are working together, the congressional process can work extremely well without a President's signature on the budget resolution.

Question 6. The deficit targets under the Budget Enforcement Act for fiscal years 1992–1995 were adjusted automatically when the President submitted his budgets for fiscal years 1992 and 1993. As you know, the deficit targets will only be adjusted in the fiscal year 1994 and 1995 budgets if the President chooses to do so and informs Congress of his intention on January 21. Does the President plan to adjust the deficit targets for these fiscal years? What is the justification for his position?

Answer: This is obviously a critical issue for this year's budget process. However, the President-elect has not yet completed his review of the matter and so has not yet decided whether to adjust the deficit targets.

Question 7. The PAYGO process under the BEA has been criticized as ineffective in controlling spending because it does not apply to mandatory spending already in law. What are your views on strengthening the PAYGO process by imposing an annual cap on mandatory spending growth or by some other means?

Answer: As I noted earlier, the inability of the BEA to control the cost of mandatory programs is a serious weakness. Some have proposed an annual cap on mandatory spending, arguing that such a cap would focus attention on the large growth of mandatory spending projected under current law and would provide a control on budget totals, while allowing some adjustments for changes in economic conditions. However, a mandatory cap would not directly target the programs that are most responsible for the rapid growth in mandatory spending—the health care programs—and could lead to across-the-board reductions in entitlements even though most of them are not experiencing especially rapid growth. This would be a particularly serious problem in the absence of substantial measures to control the cost of health care programs.

While it may be appropriate to study a mandatory spending cap, it should be clear that the real answer to controlling the cost of entitlement programs is to enact legislation making specific reforms in those programs.

Question 8. The Budget Enforcement Act provides that the spending caps can be waived in the event of an emergency declared by the President and the Congress. What is your definition of an "emergency" for the purposes of the Budget Enforcement Act.

Answer: Technically, of course, under the BEA, emergency spending is whatever the President and the Congress decide it is. However, without a tough, workable definition of an emergency, the spending caps and PAYGO requirements are virtually meaningless. I believe the definition established by the current Administration has worked reasonably well, but I plan to review this issue.

Question 9. Do you believe the practice of a current services baseline budget increases the amount of Federal spending?

Answer: The current services baseline serves a useful purpose. Because it reflects the impact of inflation and other costs, it tells us how much spending is required in the coming year to maintain the same policy in existence this year. It is the best method we have of understanding the impact of the decisions we make in the budget process. That does not mean that baseline figures are a magic formula that we always have to meet or exceed. The reality is that if we want to reduce projected deficits, we need to reduce spending below the baseline in some programs. The point of using baseline projections is not to ensure that spending always reaches the baseline, but only to ensure that we understand the effect of budget decisions when we make them.

Question 10. Is it possible under current budget law for the Federal Government to raise taxes specifically for deficit reduction? If it is not possible, what changes in law would you recommend to make it feasible for new taxes to be solely dedicated to reducing the deficit?

Answer: There is nothing under the current budget law to prohibit raising taxes specifically for the purpose of reducing the deficit. However, current law does not provide a specific means to "earmark" taxes for deficit reduction. With regard to changing the law, I believe that any possible budget process reforms in this or other areas would be considered as part of an overall deficit reduction package.

Question 11. During consideration of deficit reduction packages, increases in budget items such as user fees and Medicare premiums are most often cited as spending "reductions". Do you believe it is accurate to label such increases as reductions on the spending side of the ledger?

Answer: Medicare Part B premiums and other user fees have been classified as offsets to spending for the reasons set out in the 1967 report of the President's Commission on Budget Concepts. That is, unlike taxes, for example, they tend to be voluntary or business-type expenditures of individuals. For example, most elderly choose to buy into the Medicare Part B program by paying premiums because it is so much less expensive than buying comparable private insurance. The point made by the Concepts Commission is that if such voluntary or business-type expenditures of individuals were considered revenues rather than spending offsets, then the gross level of Federal spending would actually overstate the size of the government in relation to the total economy.

Question 12. Budget summits between the President and congressional leaders have been an important feature of Federal budgeting in recent years. Do you feel that another budget summit will be necessary in the next year or two? Are you concerned that budget summits undercut the regular legislative and political processes?

Answer: Budget summits are not how government ought to work. They are needed when a President and a Congress cannot work together through the traditional—and far preferable—budget and legislative process to take difficult but necessary actions. In other words, they are needed when political gridlock is impossible to overcome. The 1990 budget summit was needed because President Bush and the Congress had apparently unreconcilable views about how to deal with the deficit problem. To take the difficult steps of reducing spending and raising revenues, both sides felt the need for those actions to be seen as completely joint actions not the idea of one individual or political party but a cooperative action taken in the national interest.

While a budget summit cannot be ruled out in the event of unforeseen developments, I do not expect a budget summit to be necessary. I expect the new President and the Congress to work together through the normal processes to make decisions on economic and budget policy.

Question 13. The Federal budget process is criticized for its increasing complexity. What are your views? Has the budget process become too complex? What actions would you recommend to streamline the process?

Answer: The budget process is undoubtedly complex. A system that encompasses the kind of diversity and scope entailed in a \$1.5 trillion budget is bound to be complex. I have no specific proposals for reducing that complexity but I would consider suggestions that might simplify the process. However, it is possible that multi-year budgeting could reduce the need for taking every step in the budget process every single year. While it would not necessarily streamline the process itself, it could reduce the frequency with which certain budget-related actions are repeated.

Question 14. Last year you introduced H.R. 5676, the "Balanced Budget Enforcement Act of 1992," to achieve a balanced budget by fiscal year 1998 and to reform the budget process. What are your current views on the legislation, its major goals, and the process it would establish?

Answer: I believe H.R. 5676 provides a strong framework for a budget enforcement mechanism to ensure that the budget discipline provided by the 1990 budget agreement is extended and improved upon. However, I would like to add some caveats. First, as the Committee knows from my statements in association with the long-term proposals made by the House Committee on the Budget in 1991, I believe a deficit-reduction path of about a decade is more appropriate than the 5 years which H.R. 5676 requires. In addition, I am not necessarily wedded to the specific process I proposed in H.R. 5676. I do believe we need to extend and improve upon the discipline contained in the 1990 agreement. I intend to work with President-elect Clinton and the Congress to achieve that goal, and the ideas contained in H.R. 5676 will certainly figure in those discussions.

Question 15. There is widespread perception that in the past OMB manipulated revenue and spending projections for political purposes. How do you view the so-called "rosy scenarios" of years past? What do you believe should be done to restore credibility to the system? For example, do you still support the establishment of an independent Board of Estimates as you proposed last year in H.R. 5676.

Answer: Unfortunately, past budgets have too often been based on overly optimistic projections about the economy and program costs. One of the primary reasons for those "rosy scenarios" was the fixed deficit targets contained in the Gramm-Rudman-Hollings law. Because those targets had to be met, regardless of the state of the economy, it was in the interests of both the President and the Congress to be overly optimistic about economic performance, since better economic performance would produce greater revenues and thus reduce the apparent deficit. Therefore, since targets had to be met not in reality but only on paper before the fiscal year began, there was every incentive to project stronger economic growth. Since the enactment of the Budget Enforcement Act, OMB's projections have been far closer to the mainstream of economic projections.

Having first-hand experience with the problems associated with "rosy scenario" economics, I am absolutely committed to making certain that OMB produces honest economic projections. I am also encouraged by recent experience since the 1990 budget agreement. I do not expect the question of "rosy scenarios" to be a serious issue in the Clinton Administration.

Question 16. Omnibus budgetary legislation has been a recurring feature for the past decade or so. Past Presidents have applauded the use of omnibus budgetary legislation in the context of reconciliation but condemned its use in the case of continuing resolutions. What are the relative advantages and disadvantages to the President and Congress in the use of omnibus legislation? Do you think that reconciliation should be used in 1993?

Answer: The advantage of omnibus legislation is that it sometimes makes it easier for a Congress and a President to enact politically difficult but necessary measures. By combining unpopular measures with popular ones, or by combining unpopular measures in one package that achieves a popular goal, a Congress and a President can sometimes take needed steps they might not otherwise have had the political will to accomplish. Obviously, voting for or signing into law an omnibus bill does not remove political responsibility for unpopular or inappropriate measures that might be included. It is important that the public be fully informed as to what these bills contain. As for 1993, if we are serious about deficit reduction, reconciliation will be an essential part of the process.

Question 17. How would you bring to an end or minimize the disruption in Federal Government operations, including agency shutdowns and employee furloughs, caused by funding gaps? Do you think there should be a permanent continuing resolution?

Answer: The answer is that there should not be funding gaps. Congress and the administration should do their jobs and pass appropriations bills before the new fiscal year begins. There has been no funding gap in the 2 years since enactment of the budget agreement in 1990, and I fully expect there to be no recurrence of a funding gap either this year or any other year of the Clinton Administration.

Question 18. You have previously supported biennial budgeting, introducing such legislation in the 95th through 100th Congresses. What is your current view on instituting a 2-year budget cycle? Would it be equally important to institute 2-year budget resolutions, appropriations, and authorizations, or would it be possible to consider a 2-year cycle for each of these three processes separately?

Answer: I have long been an advocate of 2-year budgeting. Some multi-year budgeting has already been instituted. For example, the Department of Defense annually submits a 2-year budget to Congress. And the 1990 budget agreement established 5-year discretionary spending caps and a requirement for 5-year budget resolutions.

I continue to be a strong supporter of this multi-year approach, because it forces an Administration and Congress to use a long-term perspective in considering legislation. I also believe that 2-year budgeting ought to be considered for all elements of the budget process. I believe it can make the budget process more rational and effective by providing more time to make budget decisions and to conduct congressional oversight of existing programs.

Question 19. President-elect Clinton has stressed the need for increased investment to spur economic growth. Please define what you mean by "investment."

Answer: President-elect Clinton is committed to stimulating both public and private investment. I believe the question, however, refers specifically to public investment. In terms of the budget, I define public investment pretty much the way I would define investment by a family or a business. It means putting resources into something you expect to pay out returns in the future that exceed the original amount. Government invests in physical capital, and it invests in people—human capital—to make our economy more productive and increase growth in the future. For example, we make a public investment in education and job training in the hope that the additional income produced by workers because of that education or training—as well as the lowering of other costs those individuals might have incurred—exceeds the resources invested. Cost-effective initiatives in health care and nutrition, including childhood immunizations and encouraging adequate diets for children, can also be considered investments in future productivity. Obviously, like families and businesses, government must be careful when it makes investments to use its limited resources as wisely as possible, and it is important to remember that those resources are indeed limited.

Question 20. What are the advantages and disadvantages of presenting a separate capital budget for the Federal Government? Would such a budget facilitate decisions to promote capital investment? How would you treat expenditures for development of human capital?

Answer: Capital budgeting can be a useful tool for distinguishing between spending for current needs and spending on long-term capital investments. Many states use capital budgeting, and many with balanced budget requirements in fact balance only their operating budgets while borrowing to finance capital projects. Such an approach could encourage budget priorities based more on long-term needs rather than short-term concerns.

However, as the General Accounting Office has pointed out, it would be undesirable if it encouraged the notion that a significant component of the budget should not be subject to fiscal discipline. To quote a June 1992 GAO report, "The creation of explicit categories for governmental capital and developmental investment expenditures should not be viewed as a license to run deficits to finance these categories." The reality is that the total Federal deficit, not the operating deficit, determines Federal borrowing and its impact on the financial markets.

Another serious concern about the possible implementation of capital budgeting is definitional: how do we actually distinguish between operating costs and

long-term capital expenses? Under capital budgeting, there would always be a temptation to label everything we want, regardless of its nature, as a long-term capital expense. Practically anything can be labeled a capital expense if you choose to think of it that way. The question of human capital is a good example. If one were designing a capital budgeting system, one could consider education, for example, to be a long-term investment in human capital. But there would clearly be pressure to go far beyond a few limited areas to label almost everything that way.

Given these concerns, capital budgeting is clearly an idea that still requires very careful study.

Question 21. The General Accounting Office has recommended restructuring of the Federal Budget not only to separate capital and operating components, but also to include for each side subtotals for general, trust and enterprise activities. What is your view of this proposal?

Answer: As I will discuss later, the unified budget concept is the most useful way of looking at the Federal budget in economic terms. Regardless of how we label spending and revenues, it is the overall net amount of government spending, revenues, and borrowing that determines the overall economic effect of the Federal budget.

Trust funds have been established in certain areas to delineate carefully certain critical functions and the revenues that we raise specifically for those purposes. And if capital budgeting were adopted, it could be useful to illustrate in some manner the separate trust funds, as well as enterprise activities.

Ultimately, a split budget could be confusing and make it harder for decision makers and the public to see programs as a whole and in relationship to the entire budget. The entire budget and its overall impact on the economy ought to be the primary focus.

Question 22. Recent changes in the budget formulation process and in financial accounting have begun to recognize, through the statement of unfunded liabilities, the need to address the potential cost of long-term problems. How do you view the importance of this process and would you recommend any changes?

Answer: Painful though it might be, the Federal Government simply must face up to the existence of the long-term obligations it has undertaken, frequently without the resources to back them up. These unfunded liabilities can wreak havoc with our future budget plans. The savings and loan debacle is a perfect example of what can happen when we do not pay adequate attention to these issues.

Some believe that other areas have the potential for similar problems. While the budget now reflects the up-front cost of credit commitments, it still does not do so for insurance. Director Darman is to be commended for his efforts to highlight concerns about unfunded liabilities, and I intend, if confirmed, to continue those efforts. At this time, I have not examined the issue sufficiently to decide what specific changes I would recommend in the way we treat unfunded liabilities in the budget. However, this is a responsibility that OMB clearly must shoulder, and it would be a very important priority for me as Director.

Question 23. Another criticism of current budget procedures is that diverse elements of the budget affecting the same types of economic activities are not coordinated. A case in point is that tax expenditures and direct spending programs affecting the same types of activities—business investment or housing, for example—are not considered in conjunction with each other. Do you favor any reforms to promote more coordinated budget decision making?

Answer: Too often, programs and other initiatives, including tax measures, that affect similar areas of the economy or society are operated by separate departments or agencies, with little coordination among them. As a Member of Congress, I have seen this in a number of policy areas. It is frustrating for Congress and for the public. In some cases it should be possible to place different functions within the same agency. However, where that is not possible, it clearly is important for OMB to help rationalize and coordinate the roles of the various agencies and programs, and to develop means of reducing or ending duplication of effort and costs. I am not in a position yet to suggest specific reforms to help bring this about, but this is an important role for OMB that I would carry out very seriously.

Question 24. What are your views on maintaining the unified budget? What is your position on the treatment of off-budget programs and trust funds?

Answer: The unified budget concept is the most useful way of looking at the Federal budget in terms of its overall impact on the nation's economy. Trust funds and off-budget items serve a useful purpose in delineating certain critical functions and the revenues that we raise specifically for those purposes. It is important to know when and to what extent we are essentially operating government on the funds raised for those trust funds. (It is also important to realize when a trust fund receives an infusion of funds from the general fund.) However, creating trust funds or placing programs off-budget can also raise concerns. It may cause us to misstate total taxes and total spending; it may undercut the ability of the Congress and the President to allocate all Federal resources through the budget process; it may increase the demands of advocates of other programs to move their favorite programs off-budget; and it may undercut our ability to address the deficit problem. Regardless of those advantages and disadvantages, the year-to-year reality is that the overall fiscal impact of the Federal budget can best be judged by including all the money that government spends and all the money it receives.

Question 25. What do you consider the proper budgetary treatment of the Social Security Trust Funds? Do you favor reduction of the Social Security payroll tax?

Answer: Currently, the Social Security trust fund is off-budget and protected by means of fire walls established under the 1990 budget agreement

As I have already noted, it is most useful economically to look at the budget as a unified entity. However, budget tables should and do illustrate the extent to which the continuing annual Social Security surplus is used, in effect, to help finance the overall budget deficit. That clearly shows two things. The first is that the non-Social Security portion of the government is running an even worse deficit than the numbers usually show. The second is that the non-Social Security portion of the budget is relying to some degree on the payroll tax.

The payroll tax, when considered on its own, is clearly a regressive tax. That does not appear to be the case when it is considered in conjunction with the structure of Social Security benefits, although existing rules can have an uneven effect. In any event, since a portion of the payroll tax revenues is effectively being used to finance a portion of the non-Social Security budget, to that extent its regressivity is a very real concern.

Also, for many low- and middle-income Americans, the increases in the payroll tax during the 1980's more than wiped out the income tax reductions enacted in 1981. Clearly, an argument can be made for relief in this area. However, at a time when the overall budget deficit is such a critical issue, and given the need to protect the long-term actuarial soundness of the Social Security system, any such proposal would have to be studied very carefully. President-elect Clinton has not made any decisions in this regard, but it is an issue that we will examine very carefully.

Question 26. The Federal Credit Reform Act of 1990 reformed accounting for Federal credit programs to put their costs on a present-value basis. This method takes account of the long-term costs of credit programs. But there are other budget elements—such as proposals for new tax expenditures—for which long-term costs may not be reflected accurately by cost estimates within the 5-year budget horizon. Would you favor broader use of present-value accounting to help control these costs?

Answer: The 5-year budget outlook required under the 1990 budget agreement has been an enormously useful tool for preventing the enactment of costly mandatory spending increases or tax reduction measures. The political difficulty of finding ways of paying for new initiatives has made them very difficult to enact. Obviously, in deciding whether to enact spending and tax legislation, it is also useful to know the longer-term impact of such legislation—beyond 5 years. In certain circumstances, showing the present value of tax expenditures and other measures over the long term as a supplement to cash-basis measures could be very helpful in this regard.

Question 27. Are there any changes in the Federal budget process that you believe should be pursued that have not been mentioned in these questions?

Answer: The questions have been very thorough, and I have nothing further to offer regarding budget process changes. As time goes on, of course, the Clinton administration may wish to propose changes to the Federal budget process.

V. OMB MANAGEMENT ROLE

The 1970 reorganization of the Bureau of the Budget retitled the agency the Office of Management and Budget. A stated purpose of the reorganization was to ensure that the "management" functions, which had evolved since the creation of the BoB by the Budget and Accounting Act of 1921, were put on a par with budgetary functions.

Over the years, concerns have been raised about OMB's commitment to management. In fact, in a 1991 floor statement, you said of OMB:

"Today there is a sense that no one is really managing the basic government apparatus in a coherent manner or in a discernible direction. In addition, although complete breakdowns are few in number, when they do occur they tend to be dramatic and expensive. Surely, the savings and loan debacle and the HUD scandal are instances where inadequate management, organization, and oversight contributed to the costly impact upon our political system." (Congressional Record, House, June 25, 1991, page H 5038)

Your solution at the time was to split OMB into two separate offices. As you know, Congress had already chosen instead, through the CFO Act of 1990 (P.L. 101-576), to elevate management within OMB by consolidating those functions under a new Deputy Director for Management. Pursuant to that Act, OMB has in the last 2 years taken a number of steps to improve its management capabilities.

Question 1. What do you see as the most significant management problems facing government today and what should OMB do about them?

Answer: During the campaign President-elect Clinton said, "It is time to radically change the way government operates—to shift from top-down bureaucracy to entrepreneurial government that empowers citizens and communities to change our country from the bottom up. This is a great challenge which will take the combined efforts of OMB, the agencies, and the Congress. But it is the goal that I would hope would guide all our efforts in this area."

I am aware of the history of efforts to put the "M" back into OMB. This Committee has been justifiably concerned about the issue. It is a concern I fully share. I am also aware that it is not an easy task to accomplish, and that, if confirmed, it will require my personal attention on a sustained basis. I would intend to give it that attention.

With respect to specific management problems, it may be premature for me to say what I view as the most significant problems. The following, however, clearly need to be addressed: (1) making government more accountable to the American people; (2) streamlining and reducing the cost of government operations so that government can respond more rapidly and efficiently to changing needs and conditions; and (3) improving the quality of service to the public.

I have not had an adequate opportunity to work with OMB staff to provide a specific prescription for addressing these and other management issues. However, I believe the Committee is aware of the concerns I have expressed in the past about the treatment of management within the executive branch. I intend to act on those concerns and give management improvements the kind of priority that I, and this Committee, have regularly called for.

Question 2. What are your views on the CFO Act's consolidation of OMB Federal management responsibilities under the Deputy Director for Management? What do you intend to do to further strengthen the management mission of OMB?

Answer: The Chief Financial Officers (CFO) Act, a product of this Committee, was intended to strengthen OMB's management functions by consolidating them under the Deputy Director for Management (DDM). The Act is meant to recognize both the importance of putting that function in OMB and the value of enhancing the management capabilities of the government.

As I understand it, much of the last 3 years was spent first working with the Congress in securing enactment of the CFO Act and then establishing the basic structures that the Act provides. Now that the basic structure is in place, I intend, if confirmed, to work closely and directly with the Deputy Director for Management to set priorities and to help implement the Act. I would expect that these priorities would include the following: first, implementation of a program to address a broad set of objectives like those set forth in my response to the previous question; second, integration of the various units of the management side into a cohesive organization; and third, of the utmost importance, the management side working closely with the budget side of OMB so that the authorities and abilities of each are used to enhance and support the other.

Question 3. In the last Administration, OMB Director Darman spoke of the need to better integrate OMB management and budget operations. Please explain to what extent you agree with this perspective, what you would do to establish more effective budget and management staff relationships, including between the Deputy Director and the Deputy Director for Management, and to what extent you believe management oversight can be embedded in budget examination review.

Answer: I agree with the need to integrate budget and management operations. While management and budget imperatives seem sometimes to be in conflict, they are mutually dependent. Budgeting must be about more than cost-cutting in the short term; it must be about building capacity, such as good people and financial systems, for the long term. On the other hand, management must be more than mindless compliance with procedures; it must be about accountability for results and giving managers discretion to do the jobs they are paid to do.

Establishing effective relationships between budget and management staff depends first on having quality staff committed to making government work. Beyond that, there will need to be a close working relationship among the Deputy Director, the Deputy Director for Management, and the rest of the OMB organization.

I do believe that management oversight can, and indeed must, be embedded in the budget examination process. For example, if we are serious about making government more accountable, OMB needs to work with the agencies and the public to develop meaningful performance measures. OMB's program expertise is in its budget examining divisions. In turn, program performance measurement will only be taken seriously if OMB budget examiners, as well as authorizing and appropriations committees, demand and use performance data in their reviews of Federal programs and budgets.

Question 4. Over the last several years, both OMB and GAO have prepared lists of management "high risk" areas. These efforts have led to SWAT teams and other approaches for correcting management failures. What is your view of this process, OMB's role, and possible improvements?

Answer: It is my understanding that OMB's high risk list was established in 1989, against the backdrop of scandals at the Department of Housing and Urban Development. The high risk program was intended to supplement existing internal control programs, and inject some critical elements: top-level agreement between OMB and the agencies on the problems and the ways to fix them; continuing OMB monitoring of agency progress; discrete consideration of high risk funding needs during the budget formulation and execution processes; and agency accountability for results (through publication of high risk tables in the President's budgets).

In August 1992, the General Accounting Office reported that the high risk program was providing a much needed emphasis by top level officials on strengthening the operations of Federal programs. I fully agree that such emphasis is needed.

I have not had an opportunity to evaluate the success of OMB's efforts in "high risk" areas. This would clearly be a priority area for me, though, and I will examine these programs carefully for possible improvements in the context of an integrated management policy.

Question 5. The past two administrations made extensive use of the President's Council on Management Improvement (PCMI) and the President's Council on Integrity and Efficiency (PCIE) to address management issues across the agencies, including coordination among the Inspectors General. What value do you see in these councils? Will you continue them? If so, what areas would you like them to emphasize in the next 4 years?

Answer: The PCMI, established and expanded by executive order in 1984 and 1992, is designed to improve management of Federal departments and agencies. It is composed of agency-designated "senior management officials." Each President since President Eisenhower in 1957 has had some instrument for convening these officials. It is my understanding that the PCMI and its predecessor organizations have served as a forum for government-wide communications on agency management issues and have been used to develop and implement management improvements.

It is my understanding that the PCIE and the Executive Council on Integrity and Efficiency (the ECIE, composed of the agency-appointed Inspectors General (IGs)) are intended to coordinate IG action into government-wide efforts against

fraud, waste, and abuse. Systematic problems (such as computer security and inappropriate use of contracted advisory and assistance services) can best be identified and addressed through inter-agency audits and reviews. The PCIE and ECIE bring the IGs together for this purpose. They also, I understand, develop training for IG auditors and investigators and establish comprehensive standards for all IG work.

While I am not in a position to say specifically whether I would propose to continue the PCMI and PCIE, it is clear that the kind of coordination they are intended to provide is essential. Until I learn more about them and how they operate, however, I am unable to say exactly what changes I might suggest and what areas I would like to see emphasized.

Question 6. Inspectors General, according to the 1978 Inspector General Act, are to be selected without regard to political considerations and solely on the basis of demonstrated ability. Recent practice has been for an ad-hoc committee of the PCIE/ECIE to review each Inspector General candidate's qualifications. Would you anticipate continuing this practice? What other support can OMB give the IG's?

Answer: I fully support the notion of the Inspector Generals, which was an idea this Committee helped originate. I think the IGs have done valuable work in the agencies and have the kind of mission which OMB should particularly support. OMB should do whatever it can to help the IGs and the senior officials in the agencies in which they serve to work effectively together.

With respect to your particular question, my understanding is that the PCIE Qualifications Review Subcommittee has not met in 2 years. I am told that consultation with the PCIE and ECIE regarding selections of new IGs has been more informal, with the Deputy Director for Management asking individual IGs for their opinion of candidates.

I believe it is important for the IGs to have a significant role in the selection process. Their expertise should be fully utilized. If confirmed, I intend to evaluate carefully the part IGs have played in this regard and determine whether and how it should be upgraded.

In regard to other support OMB can give the IGs, tension between IGs and agency management is an almost inevitable consequence of an IG aggressively pursuing his or her mission. OMB needs to be prepared to support the IGs by, for example, ensuring that management appropriately responds to IG findings, and maintaining a strong IG community, with respected professional standards. As Director of OMB, I would use the resources and authority of OMB to support the work and effectiveness of the IGs.

Question 7. A frequently proposed management reform would involve the delegation of more of the operational tasks in Federal Government to professional, accountable career managers. The Volcker Commission recommended reducing the number of political appointees by 1,000 and strengthening the role of Federal career managers. What are your thoughts on this proposal and the balance of central direction with delegation of responsibility?

Answer: Government, like any other organization, functions best when people at the operating level know what they are supposed to do, have the authority to get it done, and are held accountable for results, as reflected in agreed-upon performance measures. If satisfactory organizational performance measures can be identified, career (and political) managers can be held responsible for results.

Central policy direction is important to ensure that policies are communicated clearly to those who will carry them out. At the same time, extra layers of bureaucracy, whether political or career, are not necessary to assuring success and often interfere with getting the job done by imposing unnecessary rules and reviews.

Clearly, each agency should analyze its organization carefully. Political and career positions should be examined together as the agency determines the most efficient organization to accomplish its mission. Such an organization should provide a streamlined structure that concentrates resources on getting the job done, and minimizes levels of review and overhead. While the Volcker Commission report is a valuable contribution, it is simply too early to say how many politically appointed positions might be eliminated in such a streamlining effort.

Question 8. The CFO Act gives OMB the responsibility for overseeing the "systematic measurement of performance." As you may know, in the last Congress the Senate passed S. 20, the "Government Performance and Results Act," which would spell

out in detail OMB's performance measurement mission. What is your view of performance measurement and what do you view the role of OMB to be in developing the systematic measurement of performance?

Answer: My view conforms to these conclusions in the November 1991 House Budget Committee staff report on Management Reform:

—"Governmental management and problem solving require long-term planning, coherent management decisions and consistent follow through"

—"We need to invest in after-the-fact systems that focus more on performance than process"

—"And there is a "need for program monitoring and evaluation."

To these, I would add giving managers more responsibility and authority but holding them accountable for achieving results.

In my opinion, we should look at performance measurement in the context of a comprehensive system consisting of: (1) long-range planning to establish program goals; (2) an emphasis on program execution, which requires agency managers and officials to focus on and evaluate how they are doing; (3) setting of specific performance goals as targets to be achieved; (4) comparing actual performance against these targets; and (5) giving managers more flexibility and holding them accountable for results. I would note that the Committee's bill, S. 20, incorporates many of these elements.

Your Committee's report on S. 20 commended OMB "for its efforts to use the CFOs Act as a means to begin moving Federal agencies toward systematic measurement and reporting of program results." I believe we should build on this start. OMB can play a central role in directing and overseeing any performance measurement system.

Question 9. The Nixon, Reagan, and Bush Administrations made various attempts to establish a Management By Objectives (MBO) process, all of which fell short. What are your views on the MBO process as a means of improving Federal management?

Answer: I am aware that there are concerns about experiences with Management By Objectives (MBO) as a government-wide management system. This question is particularly important because there is an apparent similarity between MBO and performance measurement. It thus becomes essential to try to understand previous experience.

As I understand it, there are at least three basic concerns that have been raised: first, that objectives were often not measurable; second, that the MBO process, even for objectives that were measurable, was often not used in either the agency or White House management system, likely because what was being measured was not deemed to be meaningful or important; and third, that budget, policy, evaluation and personnel decisions (e.g. promotions, transfers, etc.) were made without reference to MBO performance. Ultimately, the concern was that the MBO system became bound up in meaningless paper and became disconnected from the system by which managers ran their programs, although it was felt that some agencies may have used the MBO rubric to create management reporting schemes that were useful.

If there was a failure of MBOs, the question would be whether it was a failure of concept or of follow-through. It is important, if top officials establish a system, to follow through on it, and not permit it to be ignored without consequence.

Question 10. Many commentators have said that improving government management and performance requires governmental reorganization. What are your views on the need for government reorganization and consolidation and how would you pursue it? Do you continue to support the establishment of a reform commission as defined in H.R. 5035, which you introduced in the 102nd Congress?

Answer: Reorganization can be an important reform if it removes structural obstacles that impede management, raise costs, or hamper the delivery and quality of service to the public. It can also raise the visibility of an issue in the government, bring new expertise or perspectives to an area, or otherwise improve the ability of the government to formulate effective policy.

A reform commission, like that I proposed in H.R. 5035, can be very useful in engaging the various actors in the political system and in serving as a mediator in carrying out reorganizations. There may be other ways, however, to generate the necessary consensus and political will to make meaningful reorganizations possible. Whether a reform commission or other routes are utilized, what

is important is that the result is one that enjoys the support of Congress, the Administration, and the public, or the reorganization will not be effective in either increasing efficiency or improving the government's ability to make policy in a particular area.

Question 11. Until 20 years ago or so, OMB had responsibility for designing, or approving the design, of departments, agencies, and corporations. Today, this responsibility has been shifted, for the most part, to the agencies and Congress. Thus, situations arise where major reorganizations of the government take place and OMB is not a player or at best, a minor reactive player.

Most recently, the creation of the Resolution Trust Corporation (RTC) and mounting concerns about Government Sponsored Enterprises (GSE's) have reinvigorated debate about the government use of hybrid entities with uncertain authority, ambiguous lines of accountability, and confusing civil service status.

a. What are your views on this debate?

b. What knowledge and capacity does OMB have, and should it have, to design government corporations, GSE's, and even basic agencies?

Answer: The unique relationships of GSEs with the Federal Government, in conjunction with the size and substantial growth in GSE financial liabilities, have raised legitimate concerns about hidden liabilities. These concerns led to the recent enactment of legislation establishing Federal financial regulation of Federal GSEs.

It is possible that additional proposals will be made by some for new GSEs or other hybrid entities to meet new needs. It is therefore important that OMB strengthen its capabilities, so that it may play an important role, as it has historically, in the proper design of these entities. Issues that are important to consider include the structure of the entity, its governance, whether it is a public or private entity, and the means by which government supervision of the new entity is exercised, especially if a government guarantee is involved. In the recent past the government may not have paid sufficient attention to these issues in designing hybrid entities.

It is premature for me to specify what precise role OMB will play in future reorganization in the Clinton Administration. It seems to me, however, that OMB can play a valuable role as an expert in cross-cutting issues, and as an honest broker advising the President on ways to mediate between the particular interests of the different agencies affected.

I know that this Committee has had extensive experience in reorganization matters, and I would look forward to working closely with you should the occasion arise.

VI. FINANCIAL MANAGEMENT

Question 1. Please describe your views on the importance of financial management improvement in general and the financial management requirements of the CFO Act in particular, and the relative importance you accord these efforts in relation to your other priorities.

Answer: It is very important. Few people outside the government know how inadequate the government's financial management can be. Most agencies do not prepare audited financial statements, although it is a common business practice for large companies in the private sector. Agencies may make important decisions based on incomplete or late financial information.

The CFOs Act provides an opportunity to correct this long standing problem. The focus of authority on the government-wide chief financial officer and controller and the agency CFOs will enable the Congress and the President to hold specific people accountable for making the improvements. The emphasis on improving the accounting and financial management systems should increase the availability of timely, useful information. The required audited financial statements will provide not only a confirmation of the reliability of the information. They will be a vehicle for presenting information about the performance of the programs for which the statements have been prepared. They will represent a framework that demonstrates an agency has the personnel to prepare the statements, the information with which the statements can be prepared, the accounting standards that define the manner for presenting the information, and the audit capacity to evaluate and attest to the information.

In the end, the Act will only work if OMB helps the agencies acquire the capacity to generate financial information that is accurate and meaningful to the

policy managers in each agency. This can not be simply an exercise in counting beans. Successful implementation of the act may require greater training, adequate accounting systems and the computer capability to execute the systems, and constant awareness of the importance of designing a system that produces information that is relevant. The ultimate test must be whether the reforms help improve the agency's substantive programs.

Question 2. Please describe your views on the role of OMB's Office of Federal Financial Management (OFFM), its relationship to the budget side, and the staff resources needed to carry out the CFO Act.

Answer: The role of OFFM, as I understand it, is to develop policies and guidance materials for improving financial management, primarily as contemplated by the CFOs Act, but also in accordance with other statutes, e.g., Federal Managers Financial Integrity Act, Inspectors General Act, and monitor and assist with the implementation of that guidance. It has four branches, consistent with the major aspects of improving financial management.

The Federal Financial Systems Branch provides direction and leadership for the development of the modern financial management systems that are required to process and record financial information effectively and efficiently

The Financial Standards and Reporting Branch develops the policies and materials and provides the targeted technical assistance agencies need to prepare and obtain audits of financial statements.

The Credit and Cash Management Branch develops government-wide policies and standards for the management of the government's assets, specifically the management of credit, the collection of tax and non-tax debt, and the management of cash.

The Management Integrity Branch works to improve the management and integrity of the government by working with the Inspectors General and managing government-wide efforts relating to audit followup, management controls, and high risk programs. It is also responsible for strengthening financial management planning, organizations, and personnel.

It is my understanding that OFFM works closely with the budget side to achieve these goals. Budget examiners look to OFFM to provide insight and guidance for reviewing and deciding upon budget allocations for management activities. OFFM obtains greater understanding of the agencies from the budget examiners, and works with them to obtain agency responsiveness to desired financial management improvements.

I will carefully examine the current resources of the OFFM to determine the adequacy of its current staffing levels.

Question 3. Agency CFOs are a critical link in achieving the objectives of the CFO Act. They were established as senior agency positions in order to have sufficient authority and status to perform their functions. In the first round of appointments, however, CFO responsibilities were often given to officials with other duties. For example, assistant secretaries for management are exercising CFO duties in addition to personnel, administration, procurement, etc. What are your views on getting qualified agency CFOs, and on whether they should have multiple or singular responsibilities?

Answer: We need to make it clear that the CFO's job, first and foremost, is improving agency operations through better financial management. That means that we need to look for people who:

- understand how financial management fits into the big management picture;
- have a sufficient technical background to identify and meet financial management operational and reporting needs; and
- have the leadership and interpersonal skills necessary to move financial management issues to the forefront of agency decision-making processes.

I have not had adequate opportunity to study agency-by-agency treatment of the CFO position. I do understand, however, that the Committee is concerned about possible downplaying of the CFO role, and I would examine this issue carefully, if confirmed, to ensure that agencies provide the CFO position with the prominence and authority intended by the CFO Act.

Question 4. In April, 1992, OMB outlined a 5-year plan for improving financial management in the Federal Government. Do you concur in this plan, or would you change it in some respects?

Answer: It is my understanding that OMB's April 1992 plan is considered a practical document that meets the requirements of the CFO Act and details financial improvement efforts in relation to a series of specific and persistent problems in Federal financial management. As I understand it, the plan provides:

- a road map for how OMB intends to carry out the improvement of the Federal Government's financial management;
- a means with which OMB and others can monitor the plan's accomplishment;
- information with which others involved in Federal financial management can coordinate their activities with OMB; and
- material that enables individuals and groups interested in financial management to support OMB's efforts.

As Director of OMB, it would be my intention that this year's revision of the 5-year plan demonstrate a commitment to continuing financial management improvements.

In addition, my feeling is that one of the most important goals of OMB should be to ensure that the CFOs are fully integrated into each agency's top decision-making process.

Question 5. What steps will you take to ensure that both OMB and other Federal agencies have sufficient funds to implement the CFO Act 5-year plan? Do you anticipate that it will be necessary to provide additional funding for this purpose (more than is needed to maintain current service levels)? If funding were reduced for agency administration, how would you ensure the continuation of the CFO Act reforms?

Answer: If confirmed, I would work to ensure that OMB and other agencies have sufficient funds to implement the CFOs 5-year plans. It is premature to predict whether that will require funding beyond current service levels. Likewise, I cannot predict how much funding will be required for agency administration. However, I am aware of the Committee's previous actions in support of additional resources, and I want to assure the Committee of my strong commitment to adequate funding in this area if I am confirmed.

Question 6. The CFO Act provides for the development of agency financial statements. The prevailing view is that the process of preparing reliable financial statements is as valuable as the end product. What are your views about the importance of financial statements and how you will endeavor to fulfill the Act's mandates in this regard?

Answer: In the early years of implementation of the CFOs Act, it is my understanding that the need to develop financial statements will require agencies to have personnel qualified to prepare financial statements, financial systems capable of providing the information for the statements, accounting standards that define how financial information should be presented, and an audit capacity that can confirm the reliability of the financial information. Producing financial statements should compel senior and financial managers to understand the finances of their agencies and how their decisions affect the agency's financial position and results. Eventually, financial statements are intended to confirm the reliability of the information Congress uses to evaluate operations and make decisions.

It is my understanding that OMB has taken several steps to support their preparation.

- A branch within the Office of Federal Financial Management has as its primary function to define policies and provide assistance for the preparation of audited financial statements.
- OMB has defined a form and content for agency financial statements intended to enable the statements to disclose financial information in a meaningful manner.
- OMB participates as a member of the Financial Accounting Standards Advisory Board to recommend new accounting standards for adoption by OMB, GAO and Treasury.
- OMB enlists the assistance of the Association of Government Accountants to train agency financial management personnel and independent auditors on the form and content of the prescribed financial statements.

—OMB helps individual Chief Financial Officers and Inspectors General determine how they can best meet the financial statement preparation and audit requirements of the CFOs Act.

—OMB has prepared a checklist with which agency personnel can evaluate the financial statements they prepare and make modifications to improve the disclosures and meaningfulness of the statements and improve their consistency with the prescribed form and content.

—OMB applies the checklist itself and advises the agencies on steps they can take to improve the financial statements.

It would be my intention to evaluate these efforts and determine whether they are adequate or need improvement.

Question 7. In what ways could the Federal budget process be improved by the financial information and management reforms of the CFO Act? For example, what steps should OMB take to ensure that agency financial information is used in agency budget formulation and OMB budget review?

Answer: Budget formulation and execution should be supported by timely and accurate information on budget, program, and financial results. Information that is not timely, accurate, and internally consistent is of little value to budget formulation. Existing agency systems for collecting this information and making it available for decision-making and for budget control need improvement.

The financial reporting reforms fostered by the CFO Act can be of benefit to the Federal budget process. First, changes in the form and content of the audited financial statements required by the Act should improve both the meaningfulness of the disclosures for accountability and the usefulness of the information for evaluation of the agency's activities. Second, there will be more program performance information included in the statements. It is my understanding that other improvements have been considered, and I would seek to encourage further advances.

Finally, it is my understanding that OMB has been working with the Treasury to automate the collection of information under existing budget and other financial reporting requirements. In the past year, a project has been started to design a joint OMB/Treasury collection mechanism and process to provide timely, accurate, and consistent information.

Question 8. What is your impression of the condition of internal controls across government today? How well has the Federal Manager's Financial Integrity Act (FMFIA) been implemented? What would you do to improve the FMFIA?

Answer: Obviously, stories about Federal waste, fraud, and abuse continue. Nonetheless, there is a general view that the condition of internal controls across government has finally drawn needed attention due in large part to greater scrutiny by the Congress and the media, as well as such factors as the Chief Financial Officers Act, the Inspectors General, and the high risk lists published by the General Accounting Office and OMB.

As a general matter, however, the country still does not have adequate assurance that its government is operating effectively, efficiently, and with integrity. I submit that this situation stems principally from our continuing failure to instill incentives and accountability for management integrity within the Federal system. No system of outside checks and balances, no matter how elaborate, can compensate for holding individual Federal managers accountable for preventing waste, fraud, and mismanagement.

FMFIA was intended to address this fundamental management need. While I have not had an opportunity to evaluate fully its implementation, there are concerns that it has fallen short of the mark—that FMFIA implementing guidance has tended to become the purview of specialized internal control staffs, with the result frequently being a paperwork process that has little to do with substantive improvements in management controls.

As we empower agency managers, we need to make sure they understand that management integrity is an essential and integral part of the way they are expected to do business. Agency managers need to understand that they should invest in preventing control weaknesses rather than wait until they blow up and require fixing. They must recognize that they cannot delegate the responsibility for ensuring trouble free management to the Inspector General.

I believe that OMB's top management should play a major role in communicating these messages, and in assuring that OMB's implementing guidance makes sense and is followed.

Question 9. Excluding the Treasury Department, the total delinquent debt to the Federal Government, as of June 30, 1991, was about \$42.5 billion. This includes \$18.9 billion of defaulted guaranteed Federal loans. OMB has created a "SWAT" team to attempt to collect the \$6.5 billion which the agencies have referred to the Justice Department for collection. Will you keep the SWAT team set up in the previous Administration? What other proposals do you have to better collect the money legitimately owed the government?

Answer: It is my understanding that the Litigation Information Action Team was established not to collect the debt, but to recommend steps to ensure that data on the amounts and status of debts at Justice would be complete and reliable. The Team's key recommendation, contained in its June 1992 final report, was that Justice begin development of a centralized Departmental financial litigation tracking system. It is my understanding that the Federal Credit Policy Working Group's Litigation Subgroup is monitoring implementation of the recommendations.

I think we all recognize that the SWAT team approach is a symptom of management problems, not a way in itself to ensure good management. While SWAT teams may be necessary in the future, our goal should be to establish better management procedures which make it possible to discover problems early and to provide for comprehensive remedies. With respect to debt collection in particular, it is my understanding that there are a number of possible approaches including offsets from income tax refunds, litigation by private attorneys under contract, and referral to private collection contractors. OMB's Credit Management Program includes efforts to improve credit extension in order to prevent delinquencies in the first place. If confirmed, I would take a careful look at these alternative approaches, but I would not hesitate to use SWAT teams in extreme cases.

Question 10. President-elect Clinton has proposed new policy initiatives for workforce training that involve private sector employers as well as public and private nonprofit agencies. What steps might OMB take to ensure the fiscal integrity of Federal programs that are administered through such hybrid arrangements?

Answer: The appropriate steps would depend on the nature of the hybrid arrangements. In similar areas in the past, it is my understanding that OMB has ensured that organizations which expend Federal monies are subject to a minimum set of requirements for business-like management of Federal funds and are audited by an independent entity.

I would intend that OMB work with other agencies and the Congress to ensure adequate safeguards in any new program adopted that involves private sector employers as well as public and private non-profit agencies. I appreciate the fact that failure to do so could lead to excesses that imperil what otherwise could be a valuable program.

Question 11. President-elect Clinton has also proposed new community service programs that may involve education debt forgiveness. What steps might OMB take to ensure that possible fiscal consequences of such programs are recognized and that financial risks to the government are minimized?

Answer: The President-elect said shortly after he was elected, "In the national service context . . . there are a lot of factual questions that have to be asked . . . how much money should people be able to borrow a year . . . how are you going to keep the colleges and the universities of this country from using it as an excuse to explode tuition even more . . . should we add to . . . or modify [campaign recommendations]."

From a budget standpoint, two specific questions that could be particularly important to ask are the cost of the debt forgiveness and how it will be paid for.

Decisions on this issue have not yet been made so it is not possible to answer the question with any specificity. Federal and State experience with loan forgiveness and community service programs, as well as credit reform principles, can be drawn upon in the Administration's decision-making processes.

VII. PAPERWORK REDUCTION AND INFORMATION RESOURCES MANAGEMENT

Question 1. The Paperwork Reduction Act of 1980 created OMB's Office of Information and Regulatory Affairs (OIRA) with a mandate to reduce government paperwork burdens on the American public and to improve Federal information resources management (IRM).

a. What are your views on furthering the goals of the Act to reduce government redtape?

b. What are the major IRM challenges facing the Federal Government generally, and OIRA in particular?

4c. What priority do you intend to place on OMB's role in this area?

Answer to 1a: Many aspects of government "red tape" are based in statutory requirements that certain information be collected from or maintained by the public. Other requirements are matters of agency discretion. The Act gives the agencies responsibility for ensuring that government information collections have practical utility and minimize compliance costs to the public. OMB reviews information collection requirements imposed by agencies and issues policies that encourage agencies to use innovative methods to reduce red tape.

While I have not had a chance to become familiar with some of the details of how the Act works in practice, there are certain principles that I would expect OMB to follow in administering the Act. One is that it is essential that the government have certain information to carry out its responsibilities, and the Act should not be used as a way to prevent the government from carrying out its statutory responsibilities. On the other hand, in a democracy there must ultimately be a consensus between the government and the public as to what information is really needed, and in what detail. I would hope that OMB can seek comments from the public, and take a close look at information requests where the public support for the information is lacking. Additionally, the government must be mindful of the cost of paperwork to the economy, and ultimately to U.S. competitiveness. The government should use the potential of technology to ease the burden on the public whenever possible. And finally, the standardization of Federal agency systems and procedures can produce government efficiencies while reducing burden on the public.

Answer to 1b: We are living in a new information age which is transforming how business is conducted, and how the U.S. government should fulfill its information resources management functions. I would hope that OMB could provide leadership in utilizing the new technology to ensure that the government collects information in the most effective way possible, and that it provides accurate information to all sectors of the public quickly and at reasonable cost.

In general terms, it seems that the primary IRM challenge the government faces is to make a successful transition from an information system that is based on paper to one that is based on electronic records. Shifting to electronic records systems, and quickly, is essential to making the Federal Government more cost-effective and more responsive to the public.

OIRA must work with the Executive branch program agencies and GSA to ensure that information resources management and procurement practices are cost-effective and impose minimum burden to the public; that the agencies' information systems are reliable and secure; that high quality government information is made available to the public on a timely and equitable basis; that confidentiality and privacy are protected; and that agencies coordinate with each other to share information when appropriate.

Answer to 1c: It is a responsibility of the OMB Director to ensure that management issues generally receive proper high-level attention at the agency. As discussed above, if confirmed I and the other top officials at OMB would be dedicated to meeting this responsibility. It is particularly important to devote attention to OMB's information resources management functions because they can often be a tool to improve program management and cost-effectiveness.

Question 2. What are your views on the role played by information in the Federal Government. What are the costs and benefits of government information? What is the government's obligation to its citizens with regard to government information activities?

Answer: The Paperwork Reduction Act of 1980 strikes a balance between the costs and benefits of government information. The Act directs agencies to collect or create only information that is necessary for the proper performance of agency functions and has practical utility. It seeks to maximize the usefulness of information used and disseminated by the Federal Government, while minimizing the costs of managing that information. It recognizes that government information is often a public asset.

There is no question that there are costs to the public and to the government of obtaining and storing information. It is my understanding that Federal agencies spent \$24 billion in 1992 on computer and telecommunications to manage

Federal information. Federal agency requests for information and recordkeeping impose very substantial burdens on the public. I understand that Americans spent some 6.5 billion hours complying with information requests from the government in 1991. On the other hand, the government's information functions enable agencies to perform their functions. There is simply some information that the government must have to carry out its obligations.

Through the Paperwork Reduction Act OMB must help agencies meet their obligation to the public by striking the proper balance. The Act should not be used as grounds for denying the government the ability to collect from the public the information it needs. On the other hand, collection of unnecessary or duplicative information imposes unjustified costs on the businesses or individuals that must respond, on the taxpayer, and on the economy as a whole. It should not occur.

Finally, the Act should be a vehicle for ensuring that the government provides the information it does have in its possession to the public on as timely and equitable basis as possible.

Question 3. Since the Paperwork Reduction Act became effective in April 1981, congressional hearings and studies by the General Accounting Office have consistently found that while OIRA has focused on the Act's paperwork reduction goals, it has failed to comply with statutory requirements regarding other IRM areas, namely, information policy, statistics, records management, privacy, security and confidentiality, and information technology. One reason given for this has been OIRA's concentration of resources on the regulatory review process created by Executive Orders 12291 and 12498.

a. What are your views on OIRA's record of implementing the PRA? What are the major problems involved in implementing such government-wide policies? What will you do to help OIRA more effectively meet its statutory mandate?

b. What are your views on the ability of OIRA to fulfill its statutory mandates under the Paperwork Reduction Act given its exercise of regulatory review power under presidential executive order? Does OIRA have the resources to do both? Should it do both?

Answer to 3a: It is my understanding that OMB has taken a number of initiatives over the past several years in such areas as information policy, statistical policy, records management, security, privacy, and information technology. I appreciate the fact, however, that there has been considerable concern over the years about the attention OIRA has given to some of these varied information resource management functions under the Paperwork Reduction Act. Given the size and complexity of the Executive branch, differing statutory mandates, and competing demands on agency resources, ensuring progress in these areas will always require sustained effort. While I am not sufficiently familiar with the situation to provide a more detailed answer, I agree your question raises an important concern. It is something that I intend to examine further if confirmed, and to see that OIRA carries out fully all its statutory mandates.

Answer to 3b: I will be looking carefully at the ability of OIRA to carry out its functions under the Paperwork Reduction Act while also exercising its regulatory review functions delegated to it by past executive orders. While it may be that such a review indicates that OIRA needs additional resources, I see nothing inherently inconsistent in OIRA exercising both types of functions. The two seem to me interrelated, as much of the paperwork burden the government imposes is related to the government's regulatory or compliance functions.

Question 4. What are your views on the specific professional qualifications and credentials that should be possessed by an OIRA Administrator? What do you consider the most important attributes for the Administrator position and why?

Answer: The primary qualifications for the Administrator of OIRA are similar to those I would expect for any senior manager in OMB, which I described in my response to Question II-2. In particular, the OIRA Administrator should have a good understanding of the regulatory process, as well as familiarity with the issues posed by the various information and technology issues raised by the Paperwork Reduction Act.

I am aware that in a number of past instances the OIRA Administrator has stayed in the office only a relatively short period. I will work to make sure that this is not the case in the future.

Question 5. Many people have criticized the quality of Federal statistics, as well as the management and loose coordination of Federal statistical programs. What are your views on this issue?

Answer: Federal statistics are essential to operate Federal programs effectively and efficiently. As a government, we simply must have accurate and timely information. To take just one example, these statistics are crucial to any informed decision making about the competitiveness of U.S. industries, the level of U.S. imports and exports, and the condition of the economy as a whole. It is my understanding that 70 Federal entities now spend over \$2.3 billion each year (excluding the decennial census) to collect statistical information.

It is OMB's role to provide coordination, guidance, and leadership to all these Federal entities in their collection of statistical information. If confirmed, I want OMB to consider ways that the statistical collection process can be improved. I am aware, for example, that there is concern about the timeliness of some of the information the government releases. In other instances, preliminary data about the economy is released by statistical agencies based on partial returns. This results in criticisms about the number and size of subsequent revisions that are made when more complete data becomes available. Public access to related data developed by several different agencies may not be easy. These are the types of areas in which I would hope OMB could play an even more effective role in the future.

VIII. REGULATORY AFFAIRS

During the last two Administrations, OIRA has reviewed Federal agency regulatory activities under Executive Orders 12291 and 12498. The review process extends from prerulemaking activities to current regulations. It involves the application of cost/benefit analysis and directives such as E.O. 12606 (The Family), E.O. 12612 (Federalism), and E.O. 12630 (Governmental Actions and Interference with Constitutionally Protected Property Rights). Most recently this review process has been supervised by the Council on Competitiveness, and has included a regulatory moratorium.

Throughout the development of this regulatory review process, questions have arisen over its propriety and scope. Issues have included the extent to which OIRA may properly control agency rulemaking decisions, the parameters of presidential supervision of executive branch agencies, the scope of rulemaking authority delegated to agencies by Congress, and public disclosure and accountability.

Question 1. What are your views on the proper role of OMB in the Federal regulatory process? Do you believe that OMB has the authority to require an agency to revise, cancel, or postpone a proposed or final regulation that it has developed under authority delegated to the head of the agency by Congress? To the extent you think OMB should have a regulatory review role, please describe the guiding principles that should govern that review.

Answer: OMB has a central role to play in overseeing regulatory activity in the executive branch. At the present time, OMB regulatory review is carried out by the Office of Information and Regulatory Affairs, an agency established pursuant to the 1980 Federal Paperwork Act. Executive branch regulatory agencies often make decisions that can have a significant effect on the national economy, and it is important to ensure that such decisions are consistent with the overriding goals and policies of the Administration. It is also important to make sure that decisions made by one agency do not conflict with policies or actions taken by another agency in the executive branch; regulatory review by OMB is the best way to prevent such conflicts from occurring.

However, OMB has no authority to take any action that is inconsistent with a statutory mandate. If Congress chooses to vest regulatory authority in an agency, that decision should be respected, but OMB can ensure that agencies fully consider the impact of their actions on the national economy and on affected groups and interests before taking action. OMB also can help to ensure that agencies identify and consider approaches that will maximize the net overall benefit to society.

The guiding principles that I would suggest to govern regulatory review are (1) that the review process be carried out in a way that provides fairness to those potentially affected by agency action; (2) that both the spirit and the letter of regulatory statutes be adhered to; (3) that executive branch regulatory actions, to the extent possible, reflect and be consistent with the administration's overall goals and policies, while ensuring that the expertise of agencies and

their primary responsibility for making final decisions is fully respected; and (4) that the process be carried out as openly and expeditiously as possible.

Question 2. Should OMB continue to be the central review agency for Federal regulations, how should that review be carried out? And what steps would you take to avoid the following charges that have been levelled against OMB review:

- Unduly delays rulemaking;
- Displaces the decision-making discretion delegated to agencies by Congress;
- Applies statutorily impermissible criteria or factors in the review decision;
- Encourages ex parte contacts between OMB and the agencies and conduit contacts from non-governmental interests to the agencies through OMB;
- Substitutes policy judgments for the scientific and technical expertise of agency decisionmakers; and
- Undermines meaningful public participation and effective judicial review of informal rulemaking because of "secret" (e.g., ex-parte or conduit) inputs and the extraneous pressures that OMB may bring to bear on agencies.

Answer: Under the two previous administrations, regulatory review was carried out under Executive Orders 12291 and 12498. In implementing these orders, a number of serious problems have been encountered, such as lengthy delays (along with a number of missed statutory deadlines), the closed nature of the process, the displacement of agency expertise and authority, and the absence of public participation. The Senate Governmental Affairs Committee, under Senator Glenn's and Levin's leadership, has identified these problems through a series of hearings it has held over the past 5 years.

Each of the issues the Committee has identified needs to be addressed. I plan to review the record compiled by the Committee very carefully and, during the next several months, to implement whatever changes are needed. I would welcome whatever input and assistance the Committee is able to provide.

Question 3. In 1992, the Committee reported out the Regulatory Review Sunshine Act (S. 1942), to provide public accountability for regulatory review of Federal agency rulemaking activity by presidentially designated offices.

a. Would you support similar legislation in 1993? If so, what specific provisions would you like to see in such legislation?

b. Whether by legislation or administrative direction, to what extent should OMB be required to maintain public records of its oral and written contacts with private parties and agency officials in the course of its regulatory review?

Answer: President-elect Clinton, in a letter to Congressman David Skaggs last summer, stated that he wants to have "a review process consistent with public disclosure laws and administrative procedures." It is too early to say whether the Administration will support S. 1942 specifically, but, as indicated in my previous answer, I would work closely with you to develop a workable approach to this problem.

Question 4. What are your views on the continuation of Executive Orders 12291, 12498, 12606, 12612, and 12630, and the Council on Competitiveness, and the regulatory moratorium begun in January 1992?

Answer: The subject of each of the above referenced Executive Orders follows:

1. E.O. 12291—Regulatory review;
2. E.O. 12498—Regulatory planning;
3. E.O. 12606—The Family;
4. E.O. 12612—Federalism;
5. E.O. 12630—"Takings" of private property by the government.

These Executive Orders, like all executive orders, continue in effect unless rescinded by another executive order. The Clinton Administration will review all of the executive orders listed. However, I am not yet in a position to state what the Administration's views on their continuation will be.

The Council on Competitiveness and the regulatory moratorium cease to exist on January 20th since they were not established by Executive Order or other permanent Presidential directive.

Question 5. Some have criticized the manner in which cost benefit analysis has been used when developing and reviewing Federal regulations. They argue that under criteria established by OMB the costs of regulations often receive more atten-

tion because costs are easier to measure than are benefits. Do you agree and if so, what may be done to remedy the problem?

Answer: Cost-benefit analysis is a useful analytical tool, but it must be used with some care. For example, it is sometimes easier to quantify the potential costs of a regulatory action than to quantify the benefits, particularly where proposed health, safety, or environmental regulations are concerned. The analysis can help to assure a clear definition of the basic goals of a policy initiative, and to identify its major effects (both positive and negative), including unintended effects that may work counter to the policy's goals.

On balance, cost-benefit analysis can be helpful, but not necessarily determinative, in enabling regulatory decision-makers to understand the potential effects of various policy alternatives.

Question 6. What are your views on steps OMB could take to improve the effectiveness of the Regulatory Flexibility Act?

Answer: The Regulatory Flexibility Act is important because it focuses attention on regulatory burdens on small business, small government, and non-profit organizations. In a recent report for this Committee (GAO/HRD 91-16), the General Accounting Office called for improvements in the Act to ensure that burdens of regulatory actions on small governments are minimized.

The GAO concluded that the Act "has several inherent weaknesses that help explain why Federal rule-making agencies are not preparing as many analyses as they might." It recommended that the Administrator of the Small Business Administration, "enhance SBA's ability to monitor proposed regulations affecting small governments by developing small government expertise within the Office of the Chief Counsel for Advocacy. It also noted that "it would be appropriate for OMB to assist SBA in developing criteria for conducting Reg Flex analyses, and to help SBA ensure agency compliance through methods similar to those used for other regulatory activities, such as the Paperwork Reduction Act and E.O. 12291." I will be reviewing carefully what OMB's role should be regarding the Act.

IX. PROCUREMENT POLICY

Question 1. Congress gave OMB's Office of Federal Procurement Policy (OFPP) the leading role in the management of the government's \$200 billion a year procurement program. There is a perception, however, that OFPP has not had the support and commitment of the OMB Director necessary to fulfill its role.

a. What are your views on the major challenges facing Federal Government procurement and what are your priorities for OFPP?

b. How will you reinvigorate OFPP and what role will the Administrator play within OMB?

Answer to 1a: The major challenge facing Federal Government procurement is to provide a better management system for the future with fewer people and fewer tax dollars. At the same time, the financial and ethical integrity of the system must be maintained. Some \$200 billion is spent annually through the procurement process. Therefore, the policies and procedures used in expending these funds are critical, and must provide for the conduct of open, honest procurements in an efficient, effective manner. We need to move to a better system that is simpler and more business-like, characterized by greater use of automated processes, and more dependent on commercial items and services. It must also continue to be based upon competitive procedures. Regulations that do not contribute to the efficiency and integrity of the system, or are unnecessarily burdensome, must be discarded.

Answer to 1b: In light of the impact Federal procurement has on the size of the overall Federal budget, and how essential it is to find ways to reduce ineffective government spending, I would consider the Administrator of OFPP an important part of my management team. I would encourage and support a continued active role for OFPP. While I am not sufficiently familiar with how the OFPP is organized to say precisely what steps I would envision taking to reinvigorate the office, I and the new Administrator of OFPP would work closely with this Committee and others in pursuing that question.

Question 2. A July 1992 Merit Systems Protection Board survey of the acquisition workforce found major dissatisfaction among both government and private sector individuals involved in the procurement process. According to the survey, the increase in procurement regulations have contributed to delays in awarding contracts and a

belief that the Federal Government does not always achieve the best or most cost-effective services. What can be done to make needed improvements in the procurement process?

Answer: In this, as in a number of other areas, it seems to me we have to take a hard look at how the government is operating, and whether there are not more cost efficient ways of conducting the government's business. In this area, of course, the concerns of excessive regulation must be balanced against the danger of lax procedures which force the government to pay more for the goods it purchases than necessary. I suspect, however, that as the survey suggests there is considerable room in this area to simplify and rationalize the procurement regulations. I hope OMB can address these concerns. It is my understanding that in OFPP there already is a Procurement Regulatory Review Program which is looking at this issue. I would hope to pursue this and other routes to address the problem, including improved training of procurement officers. It may also be that there are worthwhile legislative proposals this Committee or others may have to give procurement officers greater flexibility in specified instances.

Question 3. Critics have characterized the Federal Government's acquisition process as "archaic and unnecessarily paper intensive" which hinders effective and timely procurement practices. Small businesses are particularly concerned. Will OFPP take an active role in developing guidelines for the electronic dissemination of information for purchase transactions?

Answer: While I am not familiar with the details of proposals for such guidelines, or the problems they may raise, the electronic dissemination of information for purchase transactions is the kind of innovative approach, taking advantage of advances in information technology, which I think OMB should promote. It is my understanding that OFPP and other agencies are currently co-sponsoring an electronic data interchange (EDI) project. If fully implemented, it would provide several million small businesses the opportunity to electronically quote on more than 50,000 of the government's small purchase Requests for Quotations (RFQ), daily. If confirmed, I would look forward to supporting this and similar initiatives at OMB.

Question 4. 1989 amendments to the OFPP Act established new and stricter rules on "revolving door," post-employment activities of many procurement officials in the Federal Government. These "Procurement Integrity" provisions set off a loud protest from both industry and government employees as being overly burdensome and a deterrent to hiring qualified personnel in the government. The operation of these conflict of interest restrictions was suspended by law (the Ethics Reform Act of 1989) from November 30, 1989 to December 1, 1990, and then suspended again (P.L. 101-510) through May 31, 1991.

a. Now that the provisions have been in force for a year and a half, do you think that they are successful and necessary in preventing conflicts of interest and potential undue influences over government procurement personnel?

b. One of the provisions of law may work to bar a procurement official from working for many government contractors in his or her field of expertise for 2 years after leaving government. Is there any indication that such restrictions have proven to be a deterrent to hiring highly qualified procurement officials?

c. What priority will conflicts of interest prevention and ethics in procurement be given by the OFPP?

d. Do you see the need for legislation in this area, and, if so, for what purpose?

Answer to 4a: President-elect Clinton has already taken steps to restrict significantly the "revolving door" post-employment activities for at least 5 years of all top officials in his Administration. There should be no question about the importance he attaches to eliminating undue influence which can distort the Federal Government decision making process in any area, including procurement. Preventing conflicts of interest is critical to maintaining the integrity of the Federal procurement process.

Before reaching a particular judgment as to the effectiveness of these provisions, I would want to review the law and the recommendations of the DOD Panel on streamlining the acquisition process which I understand criticized the law. There may be areas where the conflict of interest rules may be simplified and clarified, but the basic intent of the law is a worthy one which should be preserved.

Answer to 4b: As indicated in the previous answer, this is a matter which I will want to study further before reaching any specific judgment.

Answer to 4c: President-elect Clinton has already signaled by his actions on the revolving door problem that he wants all his top officials to be more sensitive to conflict of interest and ethical problems than any previous Administration. I would expect whoever heads OFPP to share this concern. Since maintaining the integrity of the procurement process is a fundamental objective, I would want OFPP to dedicate priority attention to this issue, including overseeing and fostering agency implementation of all relevant policies. This country's experience with the "Ill Wind" investigation is evidence enough that we can not afford to be complacent about the integrity of the procurement process.

Answer to 4d: Beyond what I have indicated in the previous parts of my answer to Question 4, this is a matter which I would want to study further before reaching any final judgment.

Question 5. Recent efforts at procurement reform seem to raise the specter of eliminating or limiting GSA's oversight of government computer buys under the Brooks Act. Yet the Committee believes GSA is needed to oversee how the government buys computers. What is the level of your commitment to this oversight tool, and what are your thoughts on improving it?

Answer: This issue raises the kind of conflicting concerns that are often encountered when the merits of entrusting procurement decisions to a central oversight agency are weighed against the advantages of giving individual agencies discretion to act on their own. It is my understanding that the proponents of the Act argue that its approach promises economies of scale, the necessary expertise in purchasing complex computer equipment and related software, and the promotion of technical standards that increase the ability of agencies to do business electronically with each other and the public. Others apparently argue that the Brooks Act model of central control and standardization reflects the bulky and expensive nature of computers in 1965, rather than today's widespread use of individual computers and software applications that are often "off-the-shelf" commercial commodities. It is my understanding that a DOD advisory committee recently questioned the need for the Act and GSA's oversight role.

Whatever the reason, it now apparently takes the Federal Government as much as several years to purchase large computer systems, too long a time in light of the rapid technological advances in the industry.

While I am not yet sufficiently familiar with the various arguments over the Brooks Act to suggest a solution at this time, it is a good example of the kind of procurement issue that I would hope that OFPP could look into further, and help devise a satisfactory solution. If confirmed, I would support the efforts of OFPP to do so.

X. CONTRACT MANAGEMENT

Question 1. OMB recently released a report which concluded that inadequate management of government contractors has led to billions of dollars in waste, fraud and abuse. What plans do you have for improving contract management?

Answer: I believe you are referring to OMB's report entitled "Summary Report of the SWAT Team on, Civilian Agency Contracting." It is my understanding that the report outlines 115 government-wide and 136 agency-specific recommendations for improving the administration and management of government contracts. It is my understanding that, as a result of that report, a government-wide panel is to be created by OFPP within the next few weeks to consider alternative approaches to providing contract administration. Among the issues the panel will consider is the allocation of agency resources to contract administration, and the desirability of either creating a civilian agency support organization similar to the Defense Contract Management Command, or expanding civilian use of the Defense Contract Management Command.

These kinds of initiatives are a very important part of the effort that must be made to reduce government waste, fraud and abuse, and to make government work better for less. I look forward to reviewing OMB's report, and the panel's work when it is completed. This is clearly an area where significant reforms may be necessary.

Question 2. Most observers of government contracting believe that many of the problems in this field have come from FTE ceilings established by OMB, which have forced agencies to contract for services even when it was not cost-effective to do so. Would you favor providing agencies more managerial flexibility to determine when it was appropriate to contract out?

Answer: I know that the overall issue of contracting out of government services is a matter that some Members of this Committee have studied in considerable detail. I look forward to talking further about this issue with interested Members of this Committee. I do not feel ready yet to say whether FTE ceilings established by OMB have caused agencies to contract out when they should not. At this time, all I can say is that generally an agency should contract out services only when it is cost effective, only when the agency can adequately oversee contractor performance, and only when the agency is held accountable for measurable results. Existing procedures should be changed if they force an agency to contract out services when these criteria can not be met.

Question 3. Federal agencies are not required to account for equipment furnished to contractors. Instead, they rely on contractors to tell them the status of such government furnished equipment (GFE). Frequently, the result is that the government and its contractors cannot account for billions of dollars worth of GFE. Would you recommend changing these procedures to better account for GFE?

Answer: It is my understanding that DOD alone has property in the hands of private contractors valued in excess of \$77 billion. This is certainly a situation that could lead to significant abuse and to waste of government assets, although I appreciate that reliance on contractor property control systems helps reduce contractor paperwork and avoids the need for the contractor to maintain two separate control systems.

It is my understanding that DOD has started an initiative to provide more direct government information on property that has been furnished to contractors. The first testing of major parts of this system is scheduled for next month, with implementation to follow thereafter. It would be my intent that OMB follow carefully the DOD program, and to consider expanding it to other agencies if the program works for DOD.

XI. INTERGOVERNMENTAL RELATIONS AND GRANTS MANAGEMENT

Question 1. There is much debate about Federal regulatory burdens placed on State and local governments, especially unfunded mandates. What are your views on this issue and what would you seek to do as OMB Director?

Answer: There is no doubt that the concern of state and local governments over unfunded mandates imposed by the Federal Government is an issue that requires considerably more attention. It is particularly important because many of the policy decisions that will confront the Clinton Administration will involve state and local governments, and will have joint funding implications. In a number of areas, the time may have come to consider whether the kind of top-down centralized approaches inherent in Federal initiatives will continue to work as well as activities that are left to the discretion of state and local governments.

Since 1982 the Congressional Budget Office has been required to estimate the costs of proposed congressional bills with an anticipated fiscal impact on state and local governments above a certain amount. Various executive orders also require agencies to assess the proposed impact of Federal policies on state and local governments.

This is an issue, however, which is going to require more careful consideration by both Congress and the Executive Branch than made possible by the procedures described above. As new policies and programs are formulated, and old ones reviewed, it would be my intent that OMB play an active role in ensuring that some of the hard questions are considered. Among the questions that need to be asked and resolved are whether the Federal Government is imposing excessive financial burdens on local governments without sufficient Federal assistance, and whether any burdens that are placed on state or local governments have been minimized. In considering these questions, it is essential that state and local officials be consulted fully before the Federal Government acts.

Question 2. In the past, many experts have recommended that OMB should be the "point" agency in leading and coordinating the Federal Government's federalism policies. In recent years, the agency has appeared to give little attention to this role. How would you define OMB's position, and how would you organize the agency to perform this function?

Answer: As the Administration reexamines the appropriate role of Federal, State and local governments in the delivery of Federal programs, I expect that OMB will play a key role in such re-examination. Federalism and the impact

of Federal policies on State and local governments will also be an important part of the budget review process.

It is too early to know what changes to OMB's organization may be necessary to achieve the Administration's objectives. However, as the Administration reexamines the role of the Federal Government in program delivery, I suspect that various parts of OMB will be affected and that I would draw on expertise from across OMB to support these initiatives.

Question 3. There appears to be an increased number of requests for, and grants of, waivers to Federal program rules and regulations that allow State and local governments to experiment with new ways to administer the programs. What are your views with regard to waivers? What principles would you use to govern approval or denial of waiver requests?

Answer: President-elect Clinton and his nominee for Secretary of Health and Human Services both expressed support last month for encouraging States to act as "laboratories of democracy." The Federal Government must be careful that it is not so inflexible that it stifles local initiatives that can lead to less costly or more effective programs. Waivers can avoid overregulation, and give state and local governments healthy latitude in complying with Federal mandates.

At the same time, President-elect Clinton has indicated that when a State receives a waiver for a demonstration project rigorous evaluations must be built into the project, and accountability must be maintained, so that States are encouraged to duplicate successful demonstrations and unsuccessful ones are discontinued.

The program agencies such as HHS and Agriculture must play a key role in granting waivers, but OMB should play an important role in encouraging waivers where justified, and coordinating efforts when a local entity requires waivers from several different agencies.

Question 4. What do you believe are the major challenges facing the Federal Government, and OMB in particular, with regard to grant and assistance management?

Answer: It is important to consider carefully whether there are ways to give grantees greater flexibility in administering grants and assistance provided by the Federal Government. Many restrictions are well-considered and fully justified in order to achieve certain policy goals. But there may well be instances where greater flexibility for state and local governments would be desirable. Further thought should be given to whether the proliferation of narrow categorical grant programs is desirable, and whether restrictions on existing grant programs should be modified.

I understand that OMB has been working to minimize additional requirements that agencies place on grants in addition to those required by statute. Through the common rule mechanism, it has established in certain areas of cross-cutting requirements a standard set of rules that all grant-making agencies follow. As in many areas, another challenge is to try to get better program results with fewer dollars through the use of performance measurement systems or the like. There may also be room to further standardize and simplify certain phases of the grants administrative process.

I would hope OMB could play a leadership role in considering all these issues.

Question 5. The Federal Grant and Cooperative Agreement Act of 1977 (P.L. 95-224, as amended) was an attempt to define certain instruments used by the Federal Government (grants, contracts, and cooperative agreements) and to clarify the circumstances under which one or the other instrument should be used. How would you evaluate OMB's implementation of this Act?

Answer: It is my understanding that the judgment of the OMB staff and state and local governments is that the common rule adopted under OMB's leadership provides clear guidance as to when grants and contracts or cooperative agreements should be used. I have no reason at this time to question that judgment. As I understand it, the rule is based on the degree of Federal agency involvement with the recipient. I understand that a companion effort is underway to overhaul OMB policy guidance for grants and cooperative agreements with universities, hospitals, and other not-for-profit organizations. I hope this effort can be completed as rapidly as possible in order to further implement the intent of the Federal Grant and Cooperative Agreement Act.

Question 6. The Federal Grant and Cooperative Agreement Act also required OMB to conduct a study "to develop a better understanding of alternative means

of implementing Federal assistance programs, and to determine the feasibility of developing a comprehensive system of guidance for Federal assistance programs." The result was a report entitled "Managing Federal Assistance in the 1980's." If you were asked to develop "alternative means" for delivering and managing Federal assistance in the 1990's, would it differ from the system used today? How?

Answer: My response to question 4 in this section applies to this question as well.

Question 7. What steps will you take to improve compliance with the Regulatory Flexibility Act as it applies to small governments?

Answer: See answer to Question VIII-6 above.

XII. PROPERTY MANAGEMENT

Question 1. What do you believe are the major challenges facing the management of Federal Government property, and how do you propose to address them?

Answer: The major challenge is finding a way to ensure that Federal agencies maximize the use of Federal property. This means acquiring property only when it is cost effective to do so and other Federal property is not available, managing property to the highest and best use, and disposing of property in ways that ensure the greatest return to the public.

This may take considerable effort to accomplish. I appreciate the fact that not only the General Services Administration but also a number of other agencies have been given authority in this area under various laws. OMB should help develop clearer policies on the acquisition, use and disposal of Federal property, and help establish an effective mechanism to oversee how agencies are managing property. To be successful this will require working closely with the other government agencies and with Congress.

Question 2. In numerous reports, the General Accounting Office has raised questions about current Federal property management practices and the property management practices of the General Services Administration. How do you view the effectiveness of current coordination between OMB and GSA with regard to property management? What changes or improvements would you make in this area?

Answer: I understand that OMB and GSA have been working for some time on developing government-wide policies on, and oversight of, agency acquisition, use, and disposition of Federal property. OMB and GSA also have a continuing dialogue on the proper role GSA itself should play as the provider of certain centrally managed services in this area. Nevertheless, it is my understanding that as recently as September 1991 GAO issued a report criticizing the Federal Government's fragmented approach to managing and disposing of Federal property. As suggested in my prior answer, this is an area which requires the continued active involvement of OMB in coordination with GSA to develop the most effective policies possible. I would hope that these efforts could be expedited.

Question 3. Legislation to eliminate GSA's Federal Building Fund (FBF) was introduced in the 102nd Congress. Would you support such legislation? What mechanism, if any, would you propose to replace the FBF?

Answer: This is a significant issue with potentially important impacts on the amount Federal agencies spend on "rent." It is my understanding that many feel the Federal Building Fund has not succeeded in encouraging agencies to manage as economically as possible either the amount of space they need or their location. There are also disputes about whether the Fund provides enough capital to meet the needs of the government for repairs and new construction. Some emphasize that the level of income paid into the Fund is not linked to the level of spending necessary to provide for the government's future space needs.

Without suggesting what the Clinton Administration's view will be of any particular bill to eliminate the Fund, the legislative proposal in the last Congress has highlighted some issues which need to be thoroughly considered. Alternative approaches to the Fund should also be developed, something the legislation in the last Congress failed to do. If an alternative approach can be developed that would reduce the amount the Federal Government spends on space requirements, it should be pursued. While only one instance, this issue illustrates the kind of debate we ought to be encouraging if we are going to be successful in reducing unnecessary government spending.

Question 4. How would you coordinate the disposition of property seized and forfeited, or otherwise obtained by various agencies of the government?

Answer: The acquisition of property by the Federal Government has increased dramatically in recent years due to a number of factors, including enhanced enforcement efforts by the Departments of Justice and Treasury; the savings and loan crisis and the related takeover of failed institutions; and increases in the number of defaults on Federal direct or guaranteed loans, many of which were collateralized by real property. This has lead to a proliferation of agencies disposing of property under different policies.

The situation could be improved by the adoption of central policies and guidelines. It is my understanding that the Chief Financial Officers Council has established an Asset Management Subcommittee to study government-wide asset management issues. The Subcommittee and OMB are currently focusing on developing performance measures and inventory controls and systems to ensure that agencies receive maximum value for properties being sold. GSA has recently created a major organizational component to assume some responsibilities for setting policies for disposing of forfeited property, but it is not clear whether it will have any impact beyond GSA-held property.

It is premature for me to conclude whether these steps are sufficient, or whether more far-reaching changes in the way the government disposes of forfeited property should be adopted. I know that the Chairman and other Members of this Committee have expressed interest in creating or designating an agency to set policy and coordinate disposal activities. I look forward to continued discussions with this Committee and other Members of Congress about this approach and other alternatives.

Question 5. Over the past 5 years, Federal Government agencies have been required by law to report any surplus properties in their inventories to HUD for screening for use by homeless providers. This program, the McKinney Act Title V Surplus Property program, was also meant to apply to base closure properties, although Congress gave authority for disposal of these surplus properties to DOD (away from GSA where it traditionally and by law resides otherwise). As director of OMB, will you work to aggressively execute the surplus property program? Will you work to ensure that DOD and the service branches adhere to the disposal priorities in the Title V program as they relate to base closure property?

Answer: The agencies primarily affected by this law are HUD and DOD, as well as HHS and GSA. DOD and the services branches have been the principal source to date of properties identified as suitable for use to assist the homeless under the Title V program. It is my understanding that many of the properties made available under Title V have been located in remote areas that are not conveniently close to homeless persons, thereby limiting demand for these properties. As Director of OMB, however, I would certainly want to pursue aggressively whatever steps OMB can take to encourage all agencies to implement the current law as effectively as possible.

XIII. SPECIAL INITIATIVES AND CONCERNS

Question 1. In the past there has been considerable controversy about OMB's legislative clearance function. What are your views on this subject?

Answer: OMB's legislative clearance function grew out of the control over the budget given to the President by the Budget and Accounting Act of 1921. The basic guidelines and procedures governing the clearance process, which have remained substantially the same for more than 50 years, are set forth in OMB Circular No. A-19.

It is my understanding that during the 102nd Congress, 742 agency legislative proposals and over 4,500 proposed agency communications to Congress (generally testimony and reports) were coordinated by OMB.

The legislative clearance function serves a number of important purposes. It enables the Executive Office of the President to coordinate the development, review, and approval of agency legislative proposals that are needed to carry out the President's legislative program. It helps agencies to draft bills that will carry out the President's policy objectives. And it assures that bills and position statements submitted to Congress by one agency properly take into account the interests and concerns of all affected agencies, while providing a means for reconciling divergent agency views.

I am aware that there has been concern over OMB's legislative clearance process. In my judgment, Congress is entitled to factual materials that an agency may gather and prepare in the course of carrying out its responsibilities, and that must be respected. Where an agency expects to submit policy judgments

or recommendations to Congress based on its research or data that it has collected, OMB can fulfill a valuable role in making sure that such judgments or recommendations are consistent with those that may be presented to the Hill by other agencies or departments in the executive branch.

Question 2. What are your views on OMB's role in personnel and human resource management?

Answer: By statute, the Office of Personnel Management (OPM) is responsible for providing the President policy advice on personnel matters and with executing, administering, and enforcing civil service laws and regulations.

Nevertheless, sound management of human resources is important to achieving one of OMB's responsibilities; improving economy and efficiency in the government. OMB's role is to provide the President advice on personnel policy matters, including pay and benefits, in the broader context of his economic and public policy agenda for the nation as a whole.

OMB advises the President on how to allocate resources efficiently—to attract and retain a high-quality, motivated Federal work force in the most cost effective way possible. In preparing the President's budget, OMB examines the approximately \$100 billion annual cost of pay and benefits of the Federal civilian work force, excluding the Postal Service.

Question 3. Last year's Energy Bill contained legislation authored by Senator Glenn to strengthen the Federal energy management program, including incentives to achieve reductions in energy consumption. What role do you think OMB can, and should, play in this effort?

Answer: OMB can play the following role in reducing energy consumption:

—The Energy Policy Act of 1992 now requires that the President transmit to Congress, along with each budget, a statement of the appropriations requested for each agency's electricity and other facility energy costs, as well as each agency's investments in energy efficiency. OMB is already collecting energy-related expenditure information from agencies for submission in the President's Fiscal Year 1994 budget request to Congress.

—OMB plans to amend Circular A-11 so that agencies will be required, beginning with the FY 1995 budget review process, to include their projected utility bills and energy efficiency investments in their annual budget request to OMB.

—OMB plans to work with the Department of Energy, the General Services Administration, and the Department of Defense to establish guidelines for accurate and analytic assessment of energy consumption in Federal buildings. These guidelines are required by Title I, Section 159 of the Energy Policy Act of 1992, as authored by Senator Glenn.

—OMB's Office of Federal Procurement Policy, in support of both Executive Order 12759 and the Energy Policy Act, will issue guidelines to encourage all agencies to acquire and use energy efficient products. The OFPP will continue its efforts of the past several years to make the Federal Government an environmentally sound, energy conserving consumer. The OFPP hopes that this practice will speed the introduction of energy saving, life-cycle cost-effective, products in the marketplace.

—In cooperation with the GSA and the White House Office of Administration, OMB will continue to reduce its own consumption of energy in the Old and New Executive Office Buildings through efficient lighting retrofits.

The OMB staff estimate that Federal savings of over \$800 million annually are possible by the end of the decade if we comply with the energy saving goals of Executive Order 12759 and the Energy Policy Act 1992.

I would like to add that as a Member of Congress, I have been strongly supportive of legislation to increase the energy efficiency of the Federal Government. For example, in the last Congress, I introduced comprehensive energy legislation that contained a provision providing incentives for Federal agencies to adopt cost-effective energy conservation investments that would pay for themselves in a short period of time. A similar provision was adopted into law in H.R. 776.

I can assure the Committee that I remain committed to the goal of energy conservation by the Federal Government.

Question 4. The government faces potentially enormous future liability from hazardous waste contamination at Federal sites. In June of last year, the Congressional

Budget Office (CBO) reported that the government knows very little about the true cost of this cleanup. What are your views on better use of OMB's budget planning process, particularly through OMB Circular A-106, to more accurately plan for Federal facility environmental cleanup?

Answer: The cleanup of hazardous waste contamination at Federal facilities is an enormously complex and expensive undertaking that may take 20-30 years or more to complete. Developing reliable estimates of future costs for hazardous waste cleanup is complicated by uncertainty about the degree of contamination at these sites and the cleanup standards that will have to be met. Also, the technologies available to accomplish the cleanup and the cleanup schedule will significantly affect project costs. Currently, there are no reliable estimates for all Federal agencies for cleanup.

The A-106 planning process, which since 1974 has required agencies to report to OMB annually through the Environmental Protection Agency (EPA) their plans to ensure compliance with environmental requirements, is focused primarily on resource estimates for the budget year rather than on estimates of total future costs. It is supplemented by other agency-specific planning mechanisms, such as the Department of Energy's (DOE) Five-Year Plan for Environmental Restoration and Waste Management that provides an annual update of DOE cleanup status and activities for the next 5 years.

While the focus of the A-106 process is to ensure that adequate funding is provided in the President's Budget for environmental compliance, it could be a more useful planning and budgeting tool with respect to out-year budget estimates. To this end, EPA and the agencies have taken steps over the past few years to improve the quality and completeness of project information reported in A-106 reports. Also, last May, EPA and OMB reconvened the Federal Inter-agency A-106 Advisory Committee to provide a forum for agencies to discuss further improvements to the A-106 process. This forum has held meetings, but has not yet produced specific improvements.

I would like to add that one of the first hearings I held as Chairman of the House Budget Committee concerned the long-term costs of cleaning up the Department of Energy's nuclear weapons complex—a problem that I know is of great concern to the Committee. I can assure you that it has been and will continue to be a great concern of mine as well.

XIV. RELATIONS WITH CONGRESS

Question 1. Do you agree without reservation to respond to any reasonable summons to appear and testify before any duly constituted committee of the Congress if you are confirmed?

Answer: Yes.

Question 2. Do you agree without reservation to reply to any reasonable request for information from any duly constituted committee of the Congress if confirmed?

Answer: Yes.

Chairman GLENN. Mr. Panetta, we welcome you this morning, and I want to acknowledge we have some new Members of the Committee who may be in and out this morning. Mr. Dorgan of North Dakota, Mr. Cochran of Mississippi, and Mr. McCain of Arizona will be in and out. Mr. Dorgan is here this morning.

We also have with us this morning a man who has been interested in all these budgeting matters for a long time. Senator Domenici has asked to sit in with us this morning. We are glad to have him with us this morning. We will have the Committee Members ask their questions first, and Senator Domenici will be welcome to ask questions at that point.

Senator Roth.

OPENING STATEMENT OF SENATOR ROTH

Senator ROTH. Thank you, Mr. Chairman.

It is a pleasure to welcome you here, Mr. Panetta, and your lovely wife. I want to congratulate the President-elect for designating

you as the new OMB Director because I think you bring a wealth of knowledge and experience with the budget process about the kind of difficult choices we have to make if we are to reduce and then eliminate the deficit.

I am also pleased that you have shown a real interest in the organization and management of the executive branch. I think this is vital because how the government is structured and operates will determine whether it spends money efficiently and wisely. These issues comprise the type of fundamental reform that have come to be known as reinventing government.

Unfortunately, while management is named first in OMB's title, it is often thought of last, and this is because in the Federal Government it is generally seen as largely unrelated to the budget. But well-run governments elsewhere more properly view management and budget as two sides of the same coin. Management's program performance goals are incorporated into the budget, showing what results each budgeted amount is to achieve.

I cannot stress too much the importance of management because I think it is the lack of results that has brought about public dissatisfaction. I was shocked the other day when we had the Comptroller General before us, Mr. Panetta, and when I asked him what programs, what agencies, or departments were well run, he could not name a single one. That should be a matter of concern for everyone here.

Good management is fundamental to deficit reduction because it will help us to do more with less. Also, program performance goals will help us better shape our budget debates. When we ask how much we should spend on a program, we should also ask what that money will achieve.

That is why I introduced S. 20, the Government Performance and Results Act, 2 years ago. It would require agencies to specify goals and report results. When enacted and fully implemented it will enable us to develop a performance-based budget. This legislation passed the Senate in October, and I will be introducing it soon.

From what I know of your interest in improving management and of President-elect Clinton's interest in reinventing government, I believe you might find this proposal very appealing. I hope you agree that it is an important part of effective budget reform and deficit reduction, and another area we both agree upon is 2 years' budgeting.

With respect to government reorganization, I notice that each of us has introduced legislation creating commissions to accomplish just that. We seem to share the conviction that Federal agencies should be streamlined, downsized, and refocused. We also seem to agree that this needs to be done wholesale and not with just a little tinkering here and there. And if I read the tea leaves right, the President-elect may be of like mind. He has a history of preferring the commission approach to achieving a consensus in addressing these kinds of issues.

I hope you will also consider broadening the scope of a commission's mandate to include operational issues like civil service reform, greater managerial flexibility. My own commission bill, which I will soon be reintroducing, includes such a mandate.

These issues are central to reinventing government and maximizing performance for the taxpayers' dollar. It is fair to say that we seem to share a similar conviction on the need to move quickly and boldly to reshape fundamentally the structure and operations of the executive branch.

As a future Director of OMB, you ought to be aware of OMB's central role in making the executive branch work rationally, effectively, and efficiently through its review of regulation. OMB is the hub of the wheel of government. It alone can undertake the ongoing function of unifying various government directives into a coherent whole. It alone can ensure that the President's team is executing his policy. It alone can ensure that well-intended regulations in one area do not have unintended consequences in others. In a government as large as ours, this function is indispensable.

The problem is that it is not authorized by law. Special interests who believe that they can control their relevant agency do not want it authorized. I hope you will join me in supporting such legislation to give you that clear statutory authority.

Now, turning to the budget, it seems to me that the most significant lesson of the original Gramm-Rudman-Hollings act or the 1987 Gramm-Rudman amendment is that in the final years of the law, when the most substantial savings were to be achieved, the laws were relaxed. In 1990 when the deficit target was too tight and the demand for spending too great, the Congress and the President passed the Budget Enforcement Act.

Three years into that agreement, the deficit has reached an all-time high, and the outlook is even worse. As we enter the final stage of the 1990 agreement, will the savings promised to the American people be realized? Or will this law also be relaxed?

Next Thursday, the new President will face his first true test on deficit reduction. A decision on whether to adjust the maximum deficit amounts for 1994 and 1995 provides President-elect Clinton with his first opportunity to demonstrate his commitment to deficit reduction. On January 21, he will have to decide between higher targets and lower targets; that is, between higher deficits and lower deficits.

On January 21, the American people and the financial markets will see how serious this new administration will be about the deficit.

Now, during the campaign, the American people were presented with "Putting People First," President-elect Clinton's plan for the economy and budget. And as we consider our economic future, we must consider whether the current recovery can afford \$155 billion in new taxes. Clearly the \$155 billion in new taxes, adopted as part of the 1990 budget agreement, exacerbated the recession. How does the new administration expect to promote growth in the economy at the same time that it plans to raise an additional \$155 billion in new taxes? And how does the new administration plan to assure that any new taxes go towards the deficit instead of higher spending?

We must also ask: Can our Nation afford \$220 billion in new spending at a time when we have these tremendous deficits as far as the eye can see?

In August, the Congressional Budget Office estimated that the deficit would reach \$330 billion this year, decline slightly, then progress upwards to \$400 billion at the end of the decade. Can our Nation afford to consider such large amounts of new spending at a time when we are routinely experiencing such large deficits?

I am interested in the spending reductions put forth in "Putting People First," but the real question remains: Are these savings real? How can we expect to capture the savings from proposals such as the \$15 billion assumed by reducing the Federal work force by 100,000 employees or the \$22 billion assumed by reducing agency administrative expenses?

President-elect Clinton voiced his strong support for the line-item veto, which, of course, he used as Governor of Arkansas. In his budget plan, the President-elect estimated this would save billions of dollars each year. I am encouraged by his call for a line-item veto. But if he cannot capture these savings, how can he expect to increase spending and reduce the deficit?

Any student of the budget knows that the increased taxes simply go towards fulfilling Congress' appetite for increased spending.

Now, some have suggested the budget numbers released by the OMB last week present a budget situation unforeseen. But one has to only look at the CBO baseline numbers presented last August—I emphasize, last August, during the height of the campaign—to realize that the latest OMB projections are really no surprise. It was perfectly clear, as this chart¹ shows, last August what was going to happen.

Now, President-elect Clinton promised that his plan would reduce the deficit in half by 1996. And that is a promise worth keeping. I hope and urge the new President and OMB Director to follow through.

The budget represents the priorities of the incumbent administration. The tremendous deficit confronting our Nation presents an enormous challenge, somewhat limiting where we can go. None of us enjoys limits, but we must consider the mountain of debt we leave behind, the impact on the way we live and the investments we can make for the future. It is in our own economic interest to confront that deficit now, not only for us but for future generations.

I am confident that you personally, Mr. Panetta, are well aware of the tough choices ahead. I am not so confident that any single adviser, no matter how wise, can control the spending appetites whetted by the last election. But I hope you can.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Senator Roth.

Are there additional opening statements?

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Mr. Chairman, thank you. Let me first add my congratulations, my warm congratulations to Congressman Panetta, on his nomination. It is a tremendous nomination. He will bring great courage and competence to the job, and the job needs both. It is a bold nomination for President Clinton: bold because he is asking somebody to serve as his budget Director who has not al-

¹ The chart referred to appears on page 155.

ways agreed with him, and it is bold for Congressman Panetta to accept because the budgetary picture that he is presented with has moved from "A Bad Day at Black Rock" to "Apocalypse Now."

I also see this nomination as an opportunity to bring new honesty to the Office of Management and Budget. The OMB has cooked the books for years, and the budgetary stew which has resulted has left the public with a bad taste in its mouth.

We have had our fill of "smoke and mirrors" budgeting. Rosy economic assumptions and sleight-of-hand budgetary gimmicks make serious deficit reduction impossible. They undermine the kind of public confidence that is going to be necessary if the shared sacrifice which is essential for real deficit reduction can be instilled. And our Nation's economic future depends on real deficit reduction. So honesty in budgeting is not a luxury. Honest numbers and serious deficit reduction are inherently linked together.

I also see Congressman Panetta's nomination as offering the American public the possibility of a new openness in the way in which the President oversees the regulatory process. Over the past 12 years, the White House has exerted unprecedented control over the issuance of regulations. And it has done so in a secretive and elitist manner, a way which is fundamentally inconsistent with the principles of openness and fairness in a democracy.

Agency regulations, in my opinion, should be reviewed by elected officials, both the President and the Congress. But they must be reviewed in a way that everyone knows who is doing the reviewing and when the reviewing is being done and the reasons for any changes made to a regulation by the White House after the agency has made its proposal. Only in that way can the public have input and impact in writing the regulations that so affect their lives.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you.

Senator Cohen.

OPENING STATEMENT OF SENATOR COHEN

Senator COHEN. Mr. Chairman, I have a very brief statement that I would like to have entered into the record.

Chairman GLENN. Without objection, it will be entered in the record.

Senator COHEN. I would like to follow up on a point that Senator Roth made. He indicated that the Comptroller General testified last week that he could not find one single agency within the executive branch that was well run. Fortunately, the question was not asked what he thought about Congress.

Pete Domenici is here, as you pointed out, and he and I have the privilege of serving on a bipartisan committee that is going to make an examination of the ways that this institution can become more effective and efficient. One of the first recommendations that I would like to make is that we reduce the amount of time that we talk and increase the amount of time that we act. So I would release any further time that I have.

Looking out into the audience, I see there are at least three spokespersons from California who would like to introduce the nominee.

PREPARED STATEMENT OF SENATOR COHEN

Good morning. Let me first offer my congratulations to my former colleague in the House.

I certainly share your deep concern about the deficit. It is a paramount problem for our economy and our government. The mounting deficit crowds out private investment, raises interest rates and leads to higher trade deficits.

As a recent GAO report concluded, "The key question facing policymakers is not whether to undertake major deficit reduction, but when and how."

I know the Administration is considering a short-term stimulus package that would raise the deficit by another \$20-\$60 billion. I would urge caution in that regard and suggest that sometimes the best offense is to have a good defense. I think the best way to help the economy is the short-term is to address our long-term needs—particularly, the deficit and health care reform.

We all know any serious deficit plan must address entitlements. I applaud you plan, Mr. Panetta, insofar as it acknowledges this reality.

I hope that the new Administration will act quickly and decisively on health care and deficit reduction.

Chairman GLENN. Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Mr. Chairman, thank you. Moved as I always am by my colleague from Maine, I will abbreviate, though not quite eliminate, the words of welcome I want to wish to Leon Panetta and to congratulate President-elect Clinton on choosing him to head OMB. Obviously Mr. Panetta is taking on a very tough job.

In the mysterious way that the American people have of speaking to us during election campaigns, I think we were all given some pretty clear messages last year. Almost two-thirds of the American people voted for change at the Presidential level if you put together the votes that President-elect Clinton and Ross Perot got. And in voting for change, they were voting for renewal.

But I think they were also expressing—to state the obvious to you, Leon, because you were out there—that a lot of them have lost faith in our government. They think that the Federal Government is out of date, that it is out of touch, that in some ways it is out to lunch. And they are giving us, with this choice of a new administration, an opportunity to try to restore that faith, although it is not going to be easy.

As Senator Glenn has said, perhaps it is the narrow vision of this Committee, but we do consider the Director of OMB to be the second most important position in our government. And in that position, you will have an extraordinary opportunity and responsibility, not just to do your job, but in the broader sense to make the Federal Government work again to restore the public's faith in this government, because it is the jurisdiction of your office, management and budgeting, on which the American people have, I would say, least faith in our abilities.

On the management side, you are going to have to really lead the way in what we have all grown fond of calling reinventing government, making government more efficient, more accountable, more service-oriented. And on the budget side, you must be the person to really be the point person in reducing the Federal deficit.

These are big assignments. This is a big job. But I have no doubt that you are exactly the right person to do this job because of your extraordinary strong record on deficit reduction and your proven record of concern about governmental management.

We speak so much about the deficit that it is hard to speak about it again without seeming to be going over old ground, just to say that you are not only tackling a big problem, but there is going to be a real need for your seasoned leadership in developing a strategy to go at deficit reduction.

You have said in your statements and writings in the past on this subject that we are not going to do better at the budget without Presidential leadership. In President-elect Clinton, I think we have a person who is prepared to lead, and I am confident that you will give him the backup to help him lead.

There is no way that deficit reduction is going to be painless. Too often in the past we have been promised literally something for nothing—shrinking deficits without cutting services or paying more taxes. That obviously has not worked yet, and it will not work now. The only way to rein in the deficit is through what Ross Perot I think quite correctly called “fair-share sacrifice.” And it is going to be your tough job to define what that means and to lead Congress into taking those steps.

As Senator Roth’s comments today and others over the last couple of days have indicated, the process of reinventing government is not a partisan—it is not just a title of a book, for one, but it is not a partisan issue either. In response to the voices of the people that we did hear last year, I think we have a moment of bipartisan opportunity to take some tough action to make government work better for the American people. And, again, we count on you to lead the way in doing that.

Finally, I will just very briefly echo what Senator Levin said in general terms. I think you also have the opportunity to restore the credibility of OMB, not just in budgetary numbering, but in respecting the intent of Congress. And I have some confidence, knowing whence you come—which is to say, from us, from Congress—that you understand what it means when a law is adopted. Too often in the past, I think after certain groups have been frustrated by an action of Congress, they have not accepted that as the final act and have gone around us through the back doors of the Administration and attempted through the regulatory process to impede the enforcement of duly enacted laws, particularly in the environmental and consumer areas. I am hopeful and confident that, based on your years of work in Congress and your understanding of the roles of the various branches of our government, that will not happen during your watch at OMB.

I look forward to the questioning today. More, I look forward with tremendous confidence and expectation to your term as the Director of OMB.

Chairman GLENN. Thank you.

Senator Cochran, we welcome you back on to the Committee and look forward to working with you this year. Do you have any remarks?

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. Thank you, Mr. Chairman. I just have a very brief statement, a word of welcome to my friend, Leon Panetta, to congratulate him on his nomination to head the Office of Management and Budget, and to challenge him to try to help this adminis-

tration live up to one of the challenges that it laid out before the American people during the campaign; that is, to have the courage to change.

An area in which I would like to see this administration display the courage to change is to bring truth in budgeting to the Federal budget process. I am not suggesting that this is a fault of the executive branch only, because Congress and the executive branch, in my experience in almost 20 years' service in the House and the Senate, have both been guilty of playing games with the budget process. The Executive branch would intentionally request fewer funds than are truly needed by some programs, knowing that Congress would add the funds because it had to, in order to satisfy the political realities. Then Congress would underfund in the appropriations process and the budget process, knowing that the programs would be added to by the appropriations process through supplemental budgeting or supplemental appropriations. This was all for the purpose of showing that one was more responsible than the other with respect to holding the line on spending, being tough, showing restraint, being responsible.

I think the American people have begun to see through this entire process. They realize it is full of games and gimmicks. It has turned into a charade, and nobody has any respect for the process anymore.

Now, that is the reality. I hope the new administration and this Congress, too, will both recognize that we have a responsibility to change this process from one of games and gimmicks to one of truth in budgeting. We need to say what we really believe, what we really know the facts to be rather than misrepresenting them, and then having to figure out who told the truth about what the deficit was going to be and when it was going to be 300-and-some-odd billion and when it wasn't.

I hope we can figure out a way to do a better job of playing straight with this process. I think the government will benefit from it. Then, those of us who serve in government can take more pride in the work we do in this process. Right now I think it is a disgrace, and it really needs somebody with courage; I think you have it—I know you have it—to come in and try to help make this system work better so that we know what the budget request is, and we know that it is a legitimate request.

Well, I didn't intend to make that long a statement, but I really feel very strongly about it. I challenge you to try to help work with the new administration and be an influence in that direction.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you, Senator Cochran.

Senator Dorgan, we welcome you to the Committee, a new Member of the Committee, a new Senator. Do you have any statement?

OPENING STATEMENT OF SENATOR DORGAN

Senator DORGAN. Mr. Chairman, thank you very much.

I have a lot to say, but if brevity is merciful, let me simply say I support the nomination. I think this is almost a perfect fit, and I will be happy to question him later.

Mr. Chairman, I yield back the balance of my time.

Chairman GLENN. Thank you very much.

Mr. Panetta, if you would take your place at the table, and I believe we have some Members from California here, Senator Feinstein, Senator Boxer, and Congressman Edwards, who wanted to make comments about your nomination. We welcome their coming to the table at this time also.

It is my understanding that Senator Boxer has a commitment this morning, and the rest of you have agreed that she could lead off this morning. Barbara.

TESTIMONY OF HON. BARBARA BOXER, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator BOXER. Thank you very, very much, Mr. Chairman and Senators, and a special thank-you to my colleagues for bearing with me. I am due at another confirmation hearing. The Committee on Environment is hearing Carol Browner this morning. So thank you very much.

Let me just say that it is very exciting for me that this is my first official testimony, Mr. Panetta, as a United States Senator. It is very moving for me to have this chance to be here for my friend and colleague.

Leon Panetta has been one of my closest colleagues in the House of Representatives. He has served as a model to me since I got there in 1983. For 2 years—actually for 4 years, I had the honor of serving under Leon's chairmanship on the House Budget Committee, and so I can really testify to you firsthand to his leadership abilities as well as to his personal attributes.

As Chairman of the House Budget Committee, Leon demonstrated an extraordinary ability to bring people together, to bring rival factions together, and this is a very big plus for us. There is no one, in my mind, who could have brought together Members of the Appropriations Committee and the Ways and Means Committee, the boll weevils and the liberals, urban representatives and rural representatives and suburban representatives like Leon Panetta did. And to me it was the Panetta miracle, and we know we need another Panetta miracle right now.

Leon's success in bringing together rival factions doesn't come by accident. I can state to you without fear of contradiction that the House of Representatives does not have a harder worker than Leon Panetta. He is the fellow who turns on the lights in the morning and he turns them out in the evening. His effectiveness as Chairman of the Budget Committee stems, in large part, from his mastery of the details of budget laws, the rules of Congress, and the traditions of the legislative branch. And no one has provided greater leadership on the issue of deficit reduction than Leon Panetta.

But his focus on the need for fiscal responsibility has not prevented him from designating priorities for our scarce resources. On the Budget Committee, I worked with Leon to design cost-effective programs that would enable us to improve the lives of our families—yes, put people first, our children in particular—while saving government funds in the long run.

I believe that Congressman Panetta understands what investments are, if you will, and what wasteful spending is. And we need that kind of leadership, and I believe that President-elect Clinton

made that a focal point of his campaign, the difference between real investments that pay dividends and wasteful spending.

For the record, and very briefly, I want to state some of Congressman Panetta's experience. He was born in Monterey, a beautiful town on California's central coast. He graduated from the University of Santa Clara in 1960, earned his J.D. from Santa Clara Law School in 1963. He then served 3 years in the United States Army, reaching the rank of first lieutenant.

After leaving the army, Leon held a series of public service jobs. He was legislative assistant to U.S. Senator minority whip Thomas Kuchel; special assistant to Secretary of U.S. Department of Health, Education, and Welfare in 1969; Director of U.S. Office of Civil Rights, 1969-70; and executive assistant to New York Mayor John Lindsay from 1970-71.

Leon then turned to the private practice of law in California for 5 years, and in 1976—I remember it well, Leon—he was elected to the House of Representatives. In 1992, he was elected to a 9th term. His people love him. One of the jokes that I always share with Leon is to kind of go up to him and say, "Leon, you only got 78 percent in your election. What happened?"

He has served with such great distinction, not only on the Budget Committee but on the Ag Committee, House Administration, and the Select Committee on Hunger. He has been a champion of a special supplemental nutrition program for Women, Infants, and Children, WIC, one of the most important and cost-effective programs operated by the Federal Government. An active and effective legislator, Leon authored the Hunger Prevention Act of 1988, the Fair Employment Practices Resolution which extended civil rights protection to House employees for the first time, and a number of successful measures to protect the beautiful and fragile California coastline.

Leon is the father of 3 terrific sons—Christopher, Carmelo, and James—and the husband of Sylvia Panetta who serves as his unpaid chief of staff in Monterey.

My colleagues, the loss of Leon Panetta from the House will clearly be felt in that institution, but there is a tremendous gain to America to have him as our Director of OMB. And I am very honored that I had the chance to lead off this testimony today.

Thank you very much, Mr. Chairman.

PREPARED STATEMENT OF SENATOR BOXER

Thank you Mr. Chairman and Members of the Committee.

It is a great honor for me to introduce Leon Panetta, President-elect Clinton's nominee for the position of Director of the Office of Management and Budget.

On a personal note, it is fitting that this is my first official testimony as a U.S. Senator. Leon Panetta has been one of my closest colleagues in the House of Representatives and has served as a model to me since my arrival as a Congresswoman in 1983.

For 2 years, I had the honor of serving under Leon's chairmanship on the House Budget Committee. Therefore, I am able to attest first hand to his leadership abilities as well as to his personal attributes.

As Chairman of the House Budget Committee, Leon has demonstrated an extraordinary ability to bring together rival factions. There is no one who could have brought together Members of the Appropriations Committee, the Ways and Means Committee, the Boll Weevils and the Liberals, Urban representatives and Rural representatives like Leon did. To me, it was the Panetta miracle.

Leon's success in bringing together rival factions does not come by accident. I can state without fear of contradiction that the House of Representatives does not have a harder worker than Leon Panetta. Leon is the fellow who turns the lights on in the office every morning and turns them off at night. His effectiveness as Chairman of the Budget Committee stems, in large part, from his mastery of the details of budget laws, the rules of Congress, and the traditions of the legislative branch of government.

No one has provided greater leadership on the issue of deficit reduction than Leon Panetta. However, Leon's focus on the need for fiscal responsibility has not prevented him from designating priorities for our scarce resources. On the Budget Committee, I worked with Leon to design cost-effective programs that would enable us to improve the lives of our families—our children in particular—while saving government funds in the long run.

For the record, I would like to briefly review Leon's experience. He was born in Monterey, a beautiful town on California's central coast. He graduated from the University of Santa Clara in 1960, and earned his J.D. from Santa Clara Law School in 1963. Leon then served 3 years in the U.S. Army, reaching the rank of first lieutenant.

After leaving the Army, Leon held a series of public service jobs. He was legislative assistant to U.S. Senator Minority Whip Thomas H. Kuchel from 1966 to 1969; Special Assistant to Secretary of U.S. Department of Health, Education and Welfare in 1969; Director of the U.S. Office for Civil Rights, 1969–70; and Executive Assistant to New York Mayor John Lindsay from 1970–71. Leon then turned to the private practice of law in California for 5 years.

In 1976, Leon was elected to the House of Representatives, and in 1992 he was elected to a 9th term. His people love him. His re-election numbers always demonstrated that. He has served with distinction, not only on the Budget Committee, but also the Agriculture Committee, House Administration Committee and the Select Committee on Hunger.

Through his service on the Agriculture and Select Hunger Committees, Leon has distinguished himself as a champion of WIC, the Special Supplemental Nutrition Program for Women, Infants, and Children, one of the most important and cost-effective programs operated by the Federal Government.

An active and effective legislator, Leon authored the Hunger Prevention Act of 1988; the Fair Employment Practices Resolution, which extended civil rights protection to House employees for the first time; and a number of successful measures to protect the beautiful and fragile California coast.

Leon is the father of 3 terrific sons, Christopher, Carmelo, and James, and the husband of Sylvia Panetta, who serves as his unpaid Chief of Staff in Monterey.

Finally, I would like to illustrate Leon's deep commitment to deficit reduction with a personal anecdote. Leon and I have been among a select group of hardy Californians in the House who flew back to California every weekend. I can personally attest that Leon's commitment to thrift extends so far that he carries a bag filled with his laundry on the flight so that he can wash it at home and save the cost of a trip to the laundromat. There are plenty of people around here who preach fiscal responsibility, but no one who practices it with as much devotion as Leon.

My colleagues, the loss of Leon Panetta from the House will clearly be felt in that institution, but there is a tremendous gain to America to have him as our Director of OMB.

Chairman GLENN. Thank you, Senator.

Senator BOXER. And good luck to you.

Chairman GLENN. Senator Feinstein.

TESTIMONY OF HON. DIANNE FEINSTEIN, A U.S. SENATOR FROM THE STATE OF CALIFORNIA

Senator FEINSTEIN. Thank you very much, Mr. Chairman and Senators.

I would like to just begin by saying this, indeed, is a very proud day for California because one of California's native sons has been nominated to a position which I believe in essence will condition the future of this country.

Leon, I would like to extend my very, very serious congratulations to you and to Sylvia and to your family. I look at that hair,

and I know that in 4 years there is going to be much more gray in that dark head of hair.

I won't repeat the comments made by my colleague, Senator Barbara Boxer, but I would like to just say, for whatever it is worth, Leon, that I think Senator Lieberman hit the nail on the head when he mentioned that any solution to the crisis that faces this country with respect to the deficit has to be on a fair-share basis. And I think in essence he sort of gave you a key to how to do it, because from my campaigning for more than 3½ years now up and down the largest State in the Union, people are willing to do what has to be done to set the books of this Nation right, provided everyone does their fair share.

One of the things that I had the pleasure to read was your report that you produced as head of the Budget Committee, which put forward a number of ways to put forth a fair-share plan to, in effect, reduce the budget deficit over time. And I, for one, hope that you will follow some of those recommendations and that you will recognize that if everyone does their share, if everyone carries a little bit of the burden, then I believe this country will see the budget deficit decline and do so with extraordinary pride.

I think that you, with your knowledge and thinking of how the Congress works, have really an unprecedented opportunity to bring forward initiatives that are sensitive with respect to how the Congress feels, how the administration feels, and put together that fair-share plan. So I would just like to say, Go get 'em, congratulations. One Senator here is a supporter of what I believe you will put forward.

Thank you.

PREPARED STATEMENT OF SENATOR FEINSTEIN

Thank you, Mr. Chairman and Members of the Committee for the opportunity to speak before you.

Today is a proud day for California and I am honored to provide this brief introduction of Congressman Leon Panetta during this confirmation hearing for his appointment as the Director of the White House Office of Management and Budget.

A native Californian, Mr. Panetta graduated magna cum laude from the University of Santa Clara where he earned his law degree as well. He then served as a 1st Lieutenant in the United States Army where he earned the Army Commendation Medal.

Mr. Panetta's success in Washington, D.C. as a Congressman is due in large part to his detailed knowledge of the inner workings of Congress. Early in his career he served as a Legislative Assistant to Senator Thomas Kuchel of California, before moving on to work in U.S. Department of Health, education and Welfare, and as Director of the U.S. Office of Civil Rights. Later, he also worked as an Executive Assistant to the Mayor of New York City, which makes him particularly knowledgeable of issues facing the cities of our Nation.

But what makes him particularly well suited for this nomination is his distinguished service in the U.S. House of Representatives. Elected to represent the Carmel Valley in 1976, Mr. Panetta has earned the respect of his colleagues with his straight-forward manner and fair hearing of facts. Known as someone who works well with Republicans and Democrats alike, Mr. Panetta is extremely knowledgeable about the budget process in Congress.

As a Member of the House Budget Committee for the past 10 years, and especially as chairman in the past 4 years, Mr. Panetta has shown his ability to zero in on reasonable and creative ways to trim the budget. As a member of the 1990 Budget Summit, he played a critical role in the negotiation and enactment of the 1990 measure to reduce the budget deficit by nearly \$500 billion over a period of 5 years.

In addition to his leadership on budgetary matters, Mr. Panetta has been the author of important legislation, including Hunger Prevention Act of 1988 and the Fair

Employment Practices Resolution, extending civil rights protection to House employees for the first time.

For his experience in both the budgetary and legislative process of the Congress, Leon Panetta is extremely qualified to become the Director of Management and Budget. The fact that he understands the thinking of the Congress, I believe, will enable him to a most effective director of the Office of Management and Budget.

Leon Panetta has the skills, experience and vision to be the leading craftsman who turns a 2,000-page budget document into a blueprint for the recovery and the rebuilding of America.

It is my sincere pleasure to introduce Congressman Leon Panetta.

Chairman GLENN. Thank you, Senator Feinstein.
Congressman Don Edwards.

TESTIMONY OF HON. DON EDWARDS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. EDWARDS. Thank you, Mr. Chairman. I am honored to be here with my two new California Senators. It is a great thrill for me to be here.

Mr. Chairman and Members of the Committee, without reservation, I can say as dean of the 52-member California delegation in the House of Representatives that there is unanimity in their support, in our support for Leon Panetta. As Barbara Boxer pointed out, we are talking about members from the left, from the right, from the middle, from the South, the North, and everywhere. He is without doubt the most respected and trusted and admired Member of the House of Representatives, and he has been that for a long time.

I was very interested in the opening statements made by the Senators, by Senator Levin and by all of you, and I think it points out very clearly the tremendous task that Leon has in working with President-elect Clinton in doing two things, which is not only to reduce and get a handle on this terrible deficit, but also to have a healthy economy and put the economy back on its feet so that taxes can be paid.

Your budget Chairman, Jim Sasser, just last week pointed out the shocking fact that this year we are going to collect in revenue \$214 billion less than we did the year before, and this is in a year that our expenses are only going to go up \$90 billion. So it is a tremendous challenge and one that I am confident, and I know that President-elect Clinton is confident, Leon can handle as a team member.

He proved that in the 1990 negotiations, the team out at Andrews Air Force Base that put together the package that did save over a period of 5 years—I believe it was in excess of \$500 billion that we lost as a result of the 1981 tax bill. And Leon is tough. I think that has been pointed out also today. He is a negotiator—but a skilled, hardened, tough one—and that is what we need.

Last, Mr. Chairman and Members of the Committee, I come from the same part of the country. I come from San Jose, and Monterey and Carmel are 65, or 70 miles south. I have known Leon Panetta for a long time. He is respected and loved in the San Francisco/Monterey Bay area. He attended law school where two of my sons attended, one of whom is a judge today. And that law school was in my congressional district for a while.

So I believe that President-elect Clinton has made a wise choice. I join all of the others in admiring, loving, and trusting Leon Pa-

netta, and I am really pleased to be able to come here today and pass the word to my colleagues in the Senate that he comes to you with the endorsement and the enthusiasm of, I believe, every person, man or woman, in the House of Representatives.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you very much, Don. Thank you for coming over with us this morning.

Congressman Sasser has joined us—what did I say? No demotion. Or maybe it is a promotion, I don't know. My slip. [Laughter.]

Senator Sasser has joined us here and wanted to make an opening statement, and we will accord him that privilege.

OPENING STATEMENT OF SENATOR SASSER

Senator SASSER. Well, thank you very much, Mr. Chairman. I apologize for being late this morning. I was coming back up from my State, and we were delayed somewhat. But I want to join with my colleagues in welcoming my old friend of many years, Congressman Leon Panetta, before the Committee this morning.

I might say that from the perspective of having served as Chairman of the Senate Budget Committee now for over 4 years and having had the pleasure to work with Congressman Panetta when he was Chairman of the House Budget Committee, I do believe that President-elect Clinton has made an inspired choice in selecting Leon Panetta to head the Office of Management and Budget. I think it is a clear signal to the Congress and to the financial community that this new administration is serious about putting a harness at long last on the Federal deficit.

I have worked with Congressman Panetta, as have many others, on budgetary matters, and we have been most impressed by his formidable talents and the qualifications that he will bring to this new assignment. Leon is a master of tax and budgetary matters, and I think this position, Mr. Chairman, as Director of the Office of Management and Budget is a perfect match for the credentials and the expertise that Leon Panetta has developed over the years on budget matters.

My friend Leon is frequently described as a deficit hawk, but I think he is also a pragmatist, a man who understands Capitol Hill, and he understands how to get things done. And I am confident that under his tenure at OMB we are going to avoid some of the unproductive ideological posturing that has characterized some of Congressman Panetta's predecessors, and instead we are going to get down to the business of getting things done.

I think that Congressman Panetta will restore integrity to the Office of Management and Budget. I think the Federal budget will once again be looked to as a document that contains reliable information, realistic predictions, and one that we can put our faith in.

I know that Leon Panetta will tell us the truth, and that is what Congress needs and that is what the country needs to make informed decisions, to reduce the deficit, and get the economy back on track.

So, Mr. Chairman, I couldn't be more pleased to welcome Congressman Panetta, and I look forward to his comments this morning, and I look forward to his swift confirmation as OMB Director.

Thank you.

Chairman GLENN. Thank you very much, Senator Sasser. Thank you, Senator Feinstein, Congressman Edwards, for being with us this morning. Thank you.

Mr. Panetta, before we proceed, I wanted to acknowledge the presence of your wife Sylvia here this morning. Glad to have her join us at the hearings this morning and be present for all of this.

Just a couple of housekeeping notes here. It would be the intention of the Chair to run the morning session from 9:30, which we started at, to 12:30, and then break and go from 2 to 4 o'clock this afternoon. If we need additional time, we have set aside time tomorrow beginning at 9:30 also. If that is necessary, the hearing would be in Dirksen 342, our regular hearing room. Whether we need that or not, we won't know at this point.

Also, the hearing this morning will follow the 6-minute rule since we have a number of people here, and the early-bird rule, first come, first called upon for questions.

Mr. Panetta, the rules require that confirmation hearings be sworn testimony, so if you will rise and raise your right hand. Do you swear the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. PANETTA. I do.

Chairman GLENN. Thank you.

Mr. Panetta, we also have several required questions that we ask every nominee, not just for this position but any that we have for confirmation. I would go through those right at the moment.

First, is there anything you are aware of in your background that might present a conflict of interest with the duties of the office to which you have been nominated?

Mr. PANETTA. No, there is not.

Chairman GLENN. Thank you. Second question: Do you know of any reason, personal or otherwise, that would in any way prevent you from fully and honorably discharging the responsibilities of the office to which you have been nominated?

Mr. PANETTA. No, there is not.

Chairman GLENN. Third question: If confirmed, do you agree without reservation to appear and to testify before any duly constituted Committee of the Congress?

Mr. PANETTA. Yes, I do.

Chairman GLENN. Thank you.

I believe you have a statement you would prefer to make?

Mr. PANETTA. Yes, I do.

Chairman GLENN. We would like to have that. Thank you.

TESTIMONY OF HON. LEON E. PANETTA, NOMINATED TO BE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. PANETTA. Thank you very much, Mr. Chairman and Members of the Committee. Thank you for your very kind remarks. I hesitate to say a damn thing, frankly, with all those nice remarks. [Laughter.]

But I would like to make a brief opening statement if I could.

I want to begin by thanking my three friends for their very kind introduction. Don Edwards, the dean of the California delegation, really is one of the finest and most outstanding people that I have

had the privilege to work with in the years that I have served in public office.

As for the two new Senators from California, there will be a lot of "firsts," I assume, in the Congress this year. But I think I can lay claim to being the first Presidential appointee introduced at a confirmation hearing by two female Senators from his State. I am extremely proud of both of them. I know them very well, and I know they will do a great job for the State of California and the Nation.

I also want to introduce another very special woman from California, and the Chairman has already introduced her: my wife and partner, Sylvia, who has come out from California to join me. She really has been more than my chief of staff out there. She has really been a partner in the service we have provided to our district, so I did want to introduce her to you.

Mr. Chairman and Members of the Committee, it is a privilege to come before you as the nominee by President-elect Clinton for Director of the Office of Management and Budget.

All of us have a rare opportunity of serving our country at a pivotal moment in history. I believe our ability to work together, the executive and legislative branch, Republicans and Democrats, to work together to lay the foundation for strong economic growth and to make that growth happen in the future will largely determine our Nation's fate in this next century.

The commitment to public service is something all of us take very seriously. It was instilled in me by my parents, who came to this country from Italy 62 years ago, with little education and little money in their pocket, like a lot of immigrants to this country, but who came here because of the promise that this land held for countless people, that this was a land of opportunity. Hard work and sacrifice are what their lives were about. They and millions like them made this Nation great.

After army duty, I began a career in public service, working here in the Senate as a legislative assistant to then minority whip Tom Kuchel. And then I served in the Department of Health, Education, and Welfare as Director of the Office for Civil Rights. I later practiced law in my home town of Monterey before being elected to the Congress in 1976.

Whether the job here was to enforce civil rights laws, as I did in the Office for Civil Rights, or whether it was working over the past decade-and-a-half to represent the good constituents of my district on the central coast of California, to try to restore sanity to the Federal budget, working with people like Pete Domenici and Jim Sasser, whether it was trying to help feed hungry children in our country and to try to protect our environment, particularly the coastal environment off California, I have sought to meet the ideals my parents passed on to me when I grew up on California's central coast: Honesty, love of country, hard work, concern and compassion for others, and respect for the law.

I am proud of the ethical standards that President-elect Clinton has set for his administration, and I intend to bring that same kind of integrity to OMB and to the budget process. It is sometimes painful, but the American people need to be told the truth about the Federal budget. They need to know where we are with this def-

icit. They need to know the tough choices that we have to confront. We have hidden that fact from them for too long. And I think if there is any message that came out of this last election, it is: Please tell us the truth. And that is exactly what I intend to do.

One other thing my parents taught me, and something I have appreciated as I have raised a family of our own, our 3 sons, it is the obligation that we pass on to our children a better life, a better country, a better future. That really has been the great hope of the American dream, that we could always give our children a better life.

In recent years, I think our Nation has forgotten that important lesson. Instead of saving and investing to give our children a better life, government has been spending and consuming far more than we have been willing to pay for.

That has created a legacy of tremendous budget deficits and debt that now we are passing on to those future generations, because they are the ones that are going to have to pay for it, and an investment deficit that has really left too many young people in this country with inadequate education for the 21st Century and the kind of challenges that face our children in this coming century; too many workers ill trained, too many Americans with inadequate health care and nutrition, and too much of our infrastructure in disrepair.

We need to confront all of these deficits, to make the tough choices, be prepared to make some sacrifice—that is a word we haven't heard very much over the last 12 years, but that is where it is at; all of us are going to have to make some sacrifice—if our economy is going to be more productive and if we are to provide greater opportunity for our children tomorrow.

As his choice for OMB Director, I want to help President-elect Clinton carry out his commitment to confront these deficits, the budget deficit and the investment deficit in our society.

I also want to help him carry out his related and, I believe, equally felt commitment to make government work again. I am very aware of this Committee's strong interest in improving management of the Federal Government, in making government more responsive, in seeking to prevent waste and fraud before they occur, and moving quickly to resolve them if they do. I have made it clear in the past and I repeat it again today that I share your strong interest in improving management, and I intend to make it a top priority of mine as Director of OMB.

One of the Senators made the statement, and I think it is true. I think it was Senator Lieberman. People don't trust government anymore. We have lost our credibility with the American people. And in order to try to deal with the deficit and in order to try to say to them we want to make the investments that need to be made, the first thing we have to do is establish our credibility with the American people that we want to make this process work. I think that is what this Committee has been concerned about, and I want to work with you in that effort.

In short, we need to make government more efficient, more creative, make it an instrument of long-term economic growth, not an impediment, and make it a source of investment in our future, not a robber of our children's birthright.

The new administration is ready to work shoulder to shoulder with the Congress, and let me just say very personally to all of you, I have worked with many of you, whether it was on budgets or in conferences of one kind or another. There is no substitute for our ability to work together. We have a real opportunity, it seems, this time around to be able to have the executive and legislative branch try to work together to solve the problems that face this country.

We and the American people face a very difficult challenge, and we face some very difficult choices. But I believe the American people are ready to face those choices. They want us to work together to solve the Nation's problems. It is by that standard that we should and we will be judged.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF MR. PANETTA

Mr. Chairman and Members of the Committee, it is a privilege to come before you as President-elect Clinton's nominee for Director of the Office of Management and Budget.

All of us have the rare opportunity of serving our country at a pivotal moment in history. I believe our ability to work together now to lay the foundation for strong economic growth in the future will largely determine our Nation's fate in the 21st Century.

The commitment to public service is something all of us take very seriously. It was instilled in me by my parents, who came to this country from Italy 62 years ago, with little education or money, ready to work in a land of opportunity. Hard work and sacrifice are what their lives were about. They and millions like them made our Nation great.

After Army duty, I began a career in public service, working in the Senate and then as director of the Department of Health, Education, and Welfare's Office for Civil Rights. I later practiced law in my home town of Monterey before being elected to the Congress in 1976.

Whether fighting to enforce civil rights laws, or working the past decade-and-a-half to represent my constituents, to restore sanity to the Federal budget, to help feed hungry children in our country, and to protect the environment, I have sought to meet the ideals my parents passed on to me as I grew up on California's central coast—honesty, love of country, hard work, concern for others, and respect for the law.

I am proud of the ethical standards President-elect Clinton has set for his administration. I intend to bring that same kind of integrity to OMB and to the budget process. It is sometimes painful, but the American people need to be told the truth about the Federal budget.

One other thing my parents taught me, something I've appreciated as I've raised a family of our own, is the obligation we have to pass on to our children a better life, a better country, a better future.

In recent years, our Nation has forgotten that lesson. Instead of saving and investing to give our children a better life, government has been spending, consuming, far more than we have been willing to pay for.

That has created a legacy of budget deficits and debt that will be paid by future generations, and an investment deficit that has left too many young people with inadequate educations for 21st Century jobs, too many workers ill-trained, too many Americans with inadequate health care and nutrition, and too much of our infrastructure in disrepair. We need to confront these deficits, to make the tough choices and be prepared for some sacrifice, in order to make our economy productive and provide greater opportunity for our children tomorrow.

As his choice for OMB Director, I want to help President-elect Clinton carry out his commitment to confront these deficits.

I also want to help him carry out his related and, I believe, equally felt commitment to make government work again. I am well aware of this Committee's strong interest in improving management of the Federal Government, in making government more responsive, in seeking to prevent waste and fraud before they occur and moving quickly to resolve them if they do. I have made it clear in the past, and I repeat today, that I share your strong interest in improving management, and I intend to make it a top priority of mine as Director of OMB.

In short, we need to make government more efficient and more creative, make it an instrument of long-term economic growth, not an impediment, and make it a source of investment in our future, not a robber of our children's birthright.

The new administration is ready to work shoulder to shoulder with the Congress. We and the American people face difficult challenges, and we face very difficult choices. But I believe the American people are ready to face up to those choices. They want us to work together to solve the Nation's problems. It is by that standard that we should, and will, be judged.

Chairman GLENN. Thank you. We will follow the 6-minute timing on the questioning.

The Federal budget deficit for fiscal year 1993 is now projected to be some \$327 billion, I hear talk of deficit projections for 1997 of more than \$380 billion, maybe approaching \$400 billion, and that is just if current services are maintained. President-elect Clinton originally promised to cut the deficit in half by fiscal year 1996. Is it still your goal to cut the deficit in half by fiscal year 1996?

Mr. PANETTA. Mr. Chairman, we are in the process of presenting a number of options to the President, and he has made no final choices at this time.

I think the key right now is to restate the commitment that he has made, which is that we have to achieve multi-year deficit reduction that is real and that we can stick with. He has also made a commitment to try to make important investments, targeted investments in this country, in areas like education and health care and infrastructure, as well as growth in terms of business incentives.

Let me give you a personal view on this issue because I think that is important to do.

As Jim Sasser and Pete Domenici know very well, the numbers in this game change a great deal. Almost as we speak today, the numbers change, particularly when you have a deteriorating economy on your hands. Revenues fall short; programs increase, like Medicare and Medicaid and AFDC, and it is always tough to tie yourself to a specific number.

I think the test of credibility, when it comes to the deficit reduction process, is that you set a deficit reduction goal—a deficit reduction goal that is credible and that you are willing to enforce. I think that was one of the strengths of the budget agreement, that it didn't necessarily say we are going to reach a certain deficit target. It said we are going to achieve a deficit reduction goal. And then back it up with choices and with enforcement, and that is exactly what has happened.

So I think that is the real test of credibility, and that is what we ought to focus on. But at this point, I have to tell you that while we are presenting a number of options to the President, he has not made a final choice on that issue.

Chairman GLENN. You stress a credible goal, and I agree with that. You wouldn't want to say this morning whether cutting the deficit in half by 1996 is a credible goal at this point?

Mr. PANETTA. I think that is one of the goals and one of the options we are presenting to the President.

Chairman GLENN. Do you have estimates of the deficit in each of the next 4 years?

Mr. PANETTA. We are basically working off OMB's estimate of the deficit, and now we are looking, as you know, as a result of what

was presented by OMB last week, at deficits that are almost going to exceed \$300 billion into the future and approaching \$400 billion by roughly 1998, 1999, and \$500 billion after the turn of the century. What you are looking at right now a deficit line that is shooting straight up.

Just to get back to your first question, I think the key right now of any deficit reduction plan is to try to stabilize this debt-to-GNP ratio. Right now we have lost control of that, and we have got to stabilize it and turn that curve back down, so that we are beginning to move downward with regard to the deficit target. So that, I think, is another legitimate goal: stabilize that debt-to-GDP ratio and try to get the curve moving downward.

Chairman GLENN. If the deficit is cut too quickly, though, it could hurt the economy in the short term. What are your views on the balance between deficit reduction and economic growth?

Mr. PANETTA. I have always felt that this is not an either/or game. I know there are some that would say, well, you can't do deficit reduction at the same time you are trying to deal with economic problems, and some who would say that you have got to basically focus on deficit reduction and you can't invest anything within the economy. I don't think this is an either/or proposition.

I think you have got to do it sensitively. You have got to be able to plan this correctly so that you do make some targeted investments in areas that need to have those investments. We have, frankly, not done enough with regards to education and with regards to infrastructure and with regards certainly to providing incentives that need to be provided to business in our society.

But at the same time, it has got to be tied to a credible, long-term deficit reduction plan. You have got to have both working in conjunction. Obviously you may want to move some of those investments up front, but you have got to show the American public that it is tied to a long-term, credible deficit reduction plan. Because if you just simply throw money out there, I think it could do incredible harm in terms of the markets and people's trust in our ability to again get that deficit down. So the two have to be tied together.

Chairman GLENN. All this is a balance between income and outgo, obviously. There has been a lot of talk since the campaign about the likelihood of a middle-class tax cut. Do you favor a middle-class tax cut?

Mr. PANETTA. I have to tell you that I don't know that there is anybody who doesn't want to cut taxes for people, and I am included. But obviously our first priority—our first priority—is to develop that deficit reduction plan and, as I said, make it credible, show that we have made the tough choices and that we are achieving the targets that we want to achieve in terms of deficit reduction; second, lay out the investment path that we want to follow and the targeted investments we want to make; and then I think dependent on that lies the question of whether or not we can go any further with regards to any kind of further reductions on taxes.

Obviously, I think all of us are interested in trying to improve the progressivity of the tax system, in trying to improve its fairness. But I think our first priority right now is to do deficit reduc-

tion and to do the investments that need to be made. That is the first priority now.

Chairman GLENN. In the past, you have opposed a balanced budget constitutional amendment, at the same time advocating a balanced budget, obviously. What are your views on a balanced budget now? Should that be a goal or a requirement? You have proposed some other approaches to that. Do you favor such things as line-item veto and rescissions? There are several different ways of approaching this thing: a balanced budget or a quasi-balanced budget legislation here as opposed to amendment; line-item veto rescissions. Give us your views on those things, would you?

Mr. PANETTA. All right. First of all, I am a believer that whatever plan you put into place, you have got to back it up with strong enforcement. Otherwise, frankly, it doesn't have credibility. So you have got to be able to have and present to the American people the fact that whatever plan you establish is backed up by strong enforcement, which means that you do set some levels in terms of spending, that you back it up with some teeth to enforce those levels; second, that you have a pay-as-you-go requirement with regards to programs, that you are showing if you want to expand benefits that you are willing to pay for those. Those are all, I think, very important enforcement goals.

With regards specifically to a balanced budget constitutional amendment, I have had some very strong concerns about doing that, mainly because I have always said that it really is dependent on strong leadership in this country, a President and a Congress working together to make the choices, and that it isn't necessary to change our most sacred document in this country in order to try to achieve that, because that is dependent on leadership. It is dependent on making tough choices, not on whether or not we change the Constitution.

My goodness, in our history we have had Presidents that have been willing to confront that issue, and they have confronted that issue successfully without having to change the Constitution. So I hesitate to change the Constitution. At the same time, as I said, I think you need that strong enforcement mechanism.

On just balancing the budget, let me just state that obviously we need to grind this deficit down, and we need to try to get it below 1 percent of GDP. Whether we actually reach a balance or not, all of us—I think economically I don't know that it is an absolute essential. But we certainly ought to try to get that deficit below 1 percent of GDP in the future.

As to a rescission plan or what is called the line-item veto, the House of Representatives adopted a provision which I would support which would require that the President's recommendations with regards to rescissions be voted on. The President currently has the power, obviously, to rescind. The problem right now is that the President's proposals on rescissions don't necessarily have to be voted on, by either the House or the Senate. I think the President at the very least is entitled to have a vote by both the House and the Senate. That amendment that was passed by the House would provide for that, and I would support that approach.

Chairman GLENN. But not just a straight line-item veto as such with no protection?

Mr. PANETTA. That is correct.

Chairman GLENN. Thank you.

Senator ROTH.

Senator ROTH. Mr. Panetta, there has been a great deal of speculation that the new administration will use the new OMB deficit estimates as the reason why it can't cut its deficit in half. Yet as is pointed out both in the *Washington Post* and the *New York Times*, the new OMB figures are not really new. As a matter of fact, it is a fact that the Congressional Budget Office last August, before the campaign was over, spelled out very clearly that it was their estimate the deficit would be \$66 billion higher. Is that not correct?

Mr. PANETTA. I think CBO basically indicated that we were looking at a higher deficit line. OMB obviously made its adjustments more recently. But I think you and I would also agree that we have seen probably a lot more deterioration in terms of that deficit than anyone anticipated. I think you are looking at almost \$100 billion a few months ago, and now we are looking at about \$50 to \$60 billion more in deterioration for the 1997 deficit, a lot of it due to revenue re-estimates, a lot of it due to Medicare and Medicaid expansions.

But the answer to your question is we anticipated, I think, at that time—at least on the Budget Committee—that there would be further deterioration.

Senator ROTH. So that, in and of itself, is not a reason not to meet the deficit reduction proposed?

Mr. PANETTA. No; the problem is that it creates greater challenges, obviously. As that number deteriorates, it means that you have to make tougher choices with regards to where you are going to try to find the spending savings and where you are going to try to find the revenues to try to meet those targets.

Senator ROTH. Now, last July 19, the *Washington Post* quotes you as saying with respect to the Clinton plan that, "It doesn't, frankly, confront the issues of how we reduce the deficit. I don't see how he can take the level of revenues he is talking about or the spending cuts he targeted and simply pump all that into added spending."

Now, my reading of "Putting People First" is that it fails to address the challenge of the deficit. The chart¹ over here illustrates the OMB baseline and the program as described in "Putting People First." It includes \$150 billion in new taxes for 4 years, \$220 billion in new spending, and \$145 billion in spending reductions.

Now, it seems to me if you look at those lines—they are pretty parallel. The Clinton plan is a little closer, but basically the lines run parallel. It seems to me that what this represents is more taxes, more spending.

How is the new administration going to reduce the deficit by half by 1996?

Mr. PANETTA. Well, obviously, any approach to reducing the deficit I have always believed, and I continue to believe, and I think the President-elect understands, is that you basically have to look at all key areas in the budget. You have got to look at defense

¹ The chart referred to appears on page 156.

spending and whether or not additional savings can be achieved there. I think non-defense spending, which is an area that obviously has taken its share of hits during the 1980's, nevertheless I think you can still get some savings there even though there should be some investments. Third, is the whole area of entitlements, which I think is a prime area. If you are looking at an area that has expanded dramatically that is causing a large part of this problem, it is the entitlement area, particularly on health care. We are looking at a tripling of costs with regards to Medicare and Medicaid.

You cannot do anything about these lines unless you confront the issue of health care and the costs that are expanding in that area. So that is a major challenge. That is 50 percent of the entitlements.

In addition to that, I think you have got to look at other areas of entitlements as well. And, lastly, you have got to look at revenues.

Everything has to be looked at in order to develop the package of deficit reduction that you are serious about using in order to reach—

Senator ROTH. Let me ask you a question there, Mr. Panetta.

Mr. PANETTA. Sure.

Senator ROTH. The economy is beginning to recover, but I think everybody is in agreement it is not too vigorous. Does it make sense, can we really afford to put \$150 billion in new taxes as proposed in "Putting People First"? What effect will that have on the economy?

I would just point out that \$155 billion in taxes was imposed in the 1990 budget agreement. Did it help the economy? Did it help reduce the deficit? Or did it only make the problem worse?

Mr. PANETTA. Senator, the budget agreement of the \$500 billion, two-thirds of that came out of spending and one-third came out of revenues. And I have to tell you that that is about the right formula. If you want to put together a deficit reduction plan, you have got to look to revenues.

The answer to your question is: What is the most regressive tax that people are paying right now? It is the tax on the deficit. I mean, let's not forget that that deficit represents a tax on families and on our kids in the future. And we can't pretend that somehow, you know, we are not going to confront that tax that is out there. And to do that, everybody is going to have to share a little bit in this challenge. I don't think you—you cannot fashion a package, a credible package on deficit reduction, and take revenues off the table. You just can't.

Senator ROTH. And yet what I am saying is that this was the theory of the budget agreement of 1990, that there would be a certain amount of revenue raising, there would be a certain amount of deficit cutting. But what did it do? It helped bring about this recession that, of course, next had the impact of increasing the deficit.

Isn't it true that somehow we have got to get a program together that will create growth and jobs? Isn't that the way to reduce the deficit?

Mr. PANETTA. Listen, first of all, I have heard the argument on the budget agreement, and I fundamentally disagree that the budg-

et agreement or the revenues that were part of the budget agreement were the cause of the recession. There are a lot of other factors that were involved: the Persian Gulf, what was happening with regards to inflation at that point, the jam-up—

Senator ROTH. Wasn't the Persian Gulf paid for by other countries?

Mr. PANETTA. Well, when there was the fear of what the Persian Gulf situation would do with regards to our oil supplies, that was a dramatic shock in terms of our economy and I think did not help us in terms of our ability to try to pull out of the recession. I don't think it was the budget agreement. I really don't. I think, frankly, if we hadn't put the budget agreement in place, we would be in worse trouble today in terms of our ability to confront this problem.

But having said that, yes, you do have to invest in jobs, and yes, you do have to provide incentives. But in doing that, you can't lose sight of what you have to do on deficit reduction. And, Senator, if you have to achieve—and I think you do have to achieve somewhere between \$300 and \$400 billion in deficit reduction over these next few years in order to achieve any target that you are after, you cannot just do that on the spending side. You have got to look to revenues as well.

Senator ROTH. My time is up, but just let me make two comments. I think history shows that tax increases result in government spending, tax and spend. That is my concern there. Second, you talked earlier about reasonable goals and deficit reduction, but, unfortunately, that is what people came out and said after the 1990 agreement, that that was establishing reasonable goals. Yet, the result, I regret to say, was miserable.

Mr. PANETTA. Again, I disagree with that, because I think the budget agreement is probably one of the best things we have done in the history of the budget process, and reinforced it.

Senator ROTH. Our deficit has expanded mightily, hasn't it?

Mr. PANETTA. The deficit problem is essentially due to the recession we have been in, and if you look at what is causing the major part of the deficit, it is loss of revenues and it's also the impact that we have seen with regards to growing entitlement programs. So those are the main causes we are looking at, and if we didn't have the budget agreement in place, my fear is that we would be in even worse trouble today in terms of confronting this problem.

Senator ROTH. But many economists will say it is a consequence of the budget agreement that extended and deepened the recession.

Mr. PANETTA. I have heard the arguments.

Senator ROTH. My time is up.

Chairman GLENN. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman.

Congressman Panetta, I am glad to hear you give great emphasis to the first priority, which is to get our economy moving again, but to do that through public confidence that we are trying to get our budget house in order. It is not in order. The budget numbers have not been arrived at honestly. The books have been consistently cooked.

I happen to agree with Senator Cochran that the administration is not solely responsible for that. I think there is some congressional participation in that process, so there is plenty of respon-

sibility to be shared in that. Nonetheless, what we need is an honest assessment of where we are at. I think that is essential, if we are going to have real deficit reduction.

I hope you stick to your guns on deficit reduction. There are going to be those who try to persuade you that we can do it without doing anything about entitlements. You have made it clear here this morning that we are going to have to do something about entitlements, and that is not limited to Medicare and Medicaid, either.

There are going to be some who are going to try to persuade you that we can do it without reducing defense. You have made it clear here this morning we are looking at defense and other domestic discretionary spending.

There are going to be some who are going to try to persuade you that we can have significant deficit reduction without looking at revenues. You have made it clear here this morning that we are going to have to look at revenues. The first place to look is revenue increases from the wealthiest among us who did awfully well in the 1980's, but it is not limited to that. You made that clear this morning. Stick to your guns on all three.

The reason I think President-elect Clinton selected you is because you have been courageous in speaking out in this area, and that is what we look forward to your continuing to do, which is to keep your focus on all sources of deficit reduction, because without all of them, we are not going to get any of them. That is the lesson of the past.

We took a survey some few years ago as to whether or not the public wanted to use any revenue from an upper income tax increase for things like education, or whether they wanted a middle income tax cut, or whether they wanted deficit reduction. The middle income tax cut came in last.

The public knows what we need to do, and deficit reduction is significantly higher than a middle income tax cut in their mind, not just in your mind, as it has been, I believe, but also in the public's mind. And that is an important ground to build on, because the public must support whatever package to be put together. It is going to take a "we."

The President must lead, but the Congress has got to be a partner with the President in putting together a comprehensive package, and your background is critical in that, because you know the Congress as well as anybody—as to what is essential for us to participate, and that is a program of fair or shared sacrifice, where everybody participates. Because if you let one special interest group or special group off the hook, everybody then immediately seeks to be treated in the same way and allowed to be off the hook, as well.

So I think your answers here are very reassuring this morning. I commend you on them. What you are basically saying, as I understand it, is we are not taking anything off the table. You are looking at all options. I believe you will have congressional support in that, again, if it is comprehensive and across the board and if you don't let a lot of groups off the hook, as appealing as those cases may be. There is a lot of appeal to those cases that will be made, but all of us have to resist that temptation.

We are looking forward to your leadership and the President's leadership, and I believe you will have support by sticking to your

guns on deficit reduction, even though there is some short-term sacrifice involved in order to achieve what you have so eloquently pointed out, which is the future opportunity for our kids, the way our parents and grandparents guaranteed it and assured it for us, by sacrificing and saving and investing, instead of spending our money.

I would like to talk to you about OIRA, the Office of Information and Regulatory Affairs. It has been controversial since February of 1981, when President Reagan established it by Executive Order.

There have been a couple of issues that have been in dispute: One is whether an office in the Office of Management and Budget should be given the power to review agency rules in the first place; and second is how that power should be exercised, if it is going to be exercised.

I have been supportive of having a central review mechanism for regulations. I saw as a local official what happens when you don't have accountability in elected officials for regulations. I have got serious problems with the way the office has been operated. It has kept the public in the dark. Their deliberations have been off the record, out of the public eye. We have seen this most recently in the Competitiveness Council in the Vice President's Office.

My question of you is do you know where the administration is going on the regulatory review process? And, second, to the extent that you are going to have regulatory review, will you commit that any such review process will be subject to clear and full public disclosure procedures?

Mr. PANETTA. First of all, with regards to the basic issue of whether or not there ought to be a central OMB review of regulations, I believe the President-elect and the new administration feel very strongly that there has to continue to be a review mechanism within the Executive Office of the President of regulations that are going through, for several reasons.

First, obviously, there are going to be divisions within an administration oftentimes between departments and agencies with regards to certain regulations. It is the responsibility, it seems to me, of the Office of Management and Budget and of the White House to try to resolve those differences, so that we don't have agencies and departments speaking with separate tongues when it comes to regulation. So a key role in the White House is to try to join that together.

Second, regulations have to be in keeping, it seems to me, with the overall policies and goals of an administration. You do want to review them to ensure that you are not stepping backwards, but, rather, going forwards.

Third—and this is an area I know is of great concern—you have to adhere to statutory law. I have a great respect for the Congress, having come from the Congress and having worked on laws, and I think you do have to respect the law that has been passed by the Congress and signed by the President.

Last, I think you have to do it in an open process. You are absolutely right, Senator, if you are going to review these things and you are going to have communications at the very least, the public should be able to know who is making that communication and what that process is about.

So those are the areas that I am committed to with regards to regulatory review.

Senator LEVIN. Thank you, Congressman.

Thank you, Mr. Chairman.

Chairman GLENN. Senator Cohen.

Senator COHEN. Thank you, Mr. Chairman.

David Stockman's appearance on one of the television programs was mentioned earlier today. He said that President-elect Clinton may be the first President in a decade or more who may not be hearing impaired.

The question I have for you is did you, as Chairman of the Budget Committee, pass along to candidate Clinton the CBO projections of the deficit which, as Senator Roth has pointed out, were not wildly disproportionate to what came out of OMB just recently? Did you pass those projections along to candidate Clinton last August?

Mr. PANETTA. I did not make any specific communication on that. We did indicate our general concerns about where the deficit line was going, because the problem was that they were looking at and obviously relying on what a lot of people were relying on, which were baseline changes, almost \$140 billion of baseline changes that everybody was hoping for, including myself.

If you look at where the budget agreement was, all of us felt that, with that in place, we would be able to see the baseline do much better, and, unfortunately, that is not happening right now.

Senator COHEN. But as of last August, CBO had its own analysis which is not too far off from what OMB has come out with recently.

Mr. PANETTA. Whether they were aware of that or not, I can't tell you.

Senator COHEN. The question is whether or not the President-elect is hearing impaired. He didn't apparently hear what CBO was saying last August.

Mr. PANETTA. Again, I don't know whether they were aware of the CBO forecast or not. I do know this, that I think the President right now is very aware of what that baseline problem is all about.

Senator COHEN. Senator Roth also mentioned that you apparently spoke with President-elect Clinton and you pointed out to him that his budget proposals didn't add up, and he said he was going to give you a chance to teach him some new math. The question I have is have you taught him your new math?

Mr. PANETTA. What we presented in options to the President basically reflects where we think the baseline is headed. I should say that the OMB baseline for the first time in a long time, by relying on the blue chip projections about where the economy is going, that that is a credible basis on which to look ahead for a baseline. That is probably one of the first times I think we really have a credible base here to look at a baseline, and I think everyone is seeing that growth is not going to do that much better in these next few years.

Senator COHEN. In looking at the Panetta new math, your budget included some pretty tough choices, as you have indicated. You have recommended freezing middle-class entitlement programs like Social Security and Medicare. Is that something you recommend to the President?

Mr. PANETTA. I did not include freezing on Social Security, but obviously I said very strongly that we have to take steps to deal with the entitlement issue.

I guess my one regret from the budget agreement is that we did not do enough with regards to the entitlement area. We did confront these other issues. We did not confront the entitlements as strongly as we should have, and that is the one area, very frankly, where I think we really have a chance now to try to get a handle or at least get a corral around those expanding costs.

Let me just mention: An entitlement cap was mentioned, and I know that there is a kind of simple approach which is to put caps on things. It is like freezing things, we all like to freeze things, we all like to put caps on things. My preference is to do it by policy decisions, because when you put arbitrary caps on it, frankly, you aren't making the choices, you aren't making the decisions, and you are going to force somebody else then to confront that. My preference is to do it with policy decisions, rather than just putting an arbitrary cap on.

Senator COHEN. As Chairman of the Budget Committee, did you ever recommend that we put caps on entitlements?

Mr. PANETTA. I have recommended a lot of things, as Chairman of the Budget Committee, to try to send signals. At one point, I recommended that we ought to have a separate office of management in OMB, just to try to force the issue of looking at the management issue. I don't believe that now, but, obviously, I am looking at the new Director of OMB and hoping that he does a better job in looking at the management issue.

Senator COHEN. In talking about dealing with entitlements, that is pretty vague and general. I will give you just 12 entitlement programs: Social Security, Medicare, Deposit Insurance, Medicaid, Federal Civil Retirement, Unemployment, Military Retirement, Food Stamps, SSI, Family Support, Veterans Benefits, and Farm Price Supports. Are there any in this list that you would exempt in terms of curbing the growth of those programs?

Mr. PANETTA. As Director of the Office of Management and Budget, I am going to take the approach that everything is on the table, Senator. Everything is on the table, and I am not going to start exempting things right now, because, frankly, the problem is too great and I think we need to look at all areas. It doesn't mean that we don't have choices to make, and obviously the President will make those choices.

But I have to start on the basis that everything is on the table and I am going to look at every area, to make sure whether or not savings can be achieved.

Senator COHEN. President-elect Clinton mentioned several times during the course of the campaign his notion about having a capital budget. Do you favor excluding Federal expenditures that are deemed to be "investments" from the deficit reduction program?

Mr. PANETTA. If you lay out long-term investments with regards to areas where you want to target investments, I think a deficit reduction plan has to acknowledge what those investments are and you have to incorporate paying for those investments in the long term as part of that deficit reduction.

Senator COHEN. What kind of criteria would you use for distinguishing investment, as opposed to consumption? For example, would the WIC program be investment in the future or consumption for the present? Would Head Start be an investment for the future or consumption for the present? Education, forestry, the Supercollider? How would you classify NIH, as Senator Domenici just suggested? How would you draw the criteria for distinguishing investments from consumption?

Mr. PANETTA. I think you have to look at the program itself and whether or not it really is an investment in the future, does it help our growth in the future, is it something that, in fact, is going to improve our capacity as a Nation, to improve our productivity, to improve our growth.

Very frankly, Head Start, it seems to me, is a very important program in terms of improving the education of our children and, therefore, it is an investment in our future.

Senator COHEN. The WIC program?

Mr. PANETTA. And I think the WIC program is the same thing, because you are improving the nutrition of children and women.

Senator COHEN. Supercollider?

Mr. PANETTA. I have had some concerns about the Supercollider and I have indicated my concerns as Chairman of the Budget Committee, and I continue to have those concerns. But I think, again, those are the kinds of issues that have to be evaluated on whether or not the investment in those kinds of areas gives you some long-term return.

Senator COHEN. Forestry?

Mr. PANETTA. It is another area I would say that ought to be evaluated on that basis.

Senator COHEN. Educational programs?

Mr. PANETTA. Educational programs, again, I think when you are investing in improving education of our kids, you are in fact investing in the future.

Senator COHEN. Thank you, Mr. Chairman. My time is up.

Chairman GLENN. Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman.

Congressman Panetta, I want to continue with the discussion about deficit reduction and what we can do and what kind of leadership we can hope for from you to help us do more on this. We have been following the newspapers lately and discussions about the possibility, because of the changing projections of the deficit, that some of the things that President-elect Clinton said he hoped he could do during the campaign, such as enacting a middle-class tax cut of some kind, would not be possible.

This leads me to this general question, which is have we reached the time here at the beginning of a new administration when, with the same party in control of both branches, the Executive and Legislative, we want to step out and do something bold and take a big bite out of both expenditures and, in a sense, another bold step by increasing taxes or some fundamental kind of tax reform? In other words, as I watch the news, it seems to me that unless there is something big that is done, we are going to temporize, we are going to end up with—what is the old biblical reference—the sound of the trumpet will be uncertain, so who will follow us into battle.

I am worried that the forces that impact on the process, both Executive and congressional, will lead us to sound an uncertain trumpet which will not really confront our big problems. So my question is, is this a time for a big bold step? I hesitate to give you an example, because I don't want the discussion to be off on that, but I am thinking of the kind of tax reform proposed by Senator Nunn and Senator Domenici in their report for CSIS last year, which would go to a consumption-based taxing system and allow paydown of deficit and tax reform and other areas, as well.

Mr. PANETTA. Senator Lieberman, it is my view and my belief that the President-elect is committed to presenting the country with a bold economic plan. That plan will obviously target a credible deficit reduction plan, and it will include some tough choices, and it will also include a set of investments, long-term investments that need to be made.

I think when he presents that plan to the country, it will be recognized as a bold plan and, very frankly, it will represent a challenge not only to the Congress, but to the country, and we have a very small window of opportunity to get that plan enacted, and I hope we do.

Senator LIEBERMAN. I appreciate your answer and, based on your record of leadership in this area, I am confident that you will do everything you can to make sure that is the way it comes out, because we don't want to be here 2, 3, 4, 5, or 6 years from now playing around the edges and seeing the problem get worse.

Let me ask you about some of the specific proposals that are on the table and beneath the big bold idea that we have talked about. During the campaign, the President-elect talked about a 3 percent reduction in all administrative budgets of Federal agencies as a way to mandate increases in productivity. How do you feel about that? Are we going to see that in the first Clinton budget?

Mr. PANETTA. Again, as I indicated, with everything being on the table, I think you have to look at potential management savings the President has indicated. He targeted that area during the campaign, and that certainly will be on the table, as we present options to the President.

Senator LIEBERMAN. Do you have a position on it yourself?

Mr. PANETTA. I have always felt that you could find additional savings, management savings within both the Executive Branch and, I might add, the Legislative Branch, and I think we ought to look at that very closely as part of any package.

I think that you have got to say to the American people, if we are going to have sacrifices on the part of the American people in a number of these areas that we talked about, I think we also have to set the example that we are part of that process.

Senator LIEBERMAN. Absolutely. In my opening statement, I borrowed from Ross Perot and that concept of fair share sacrifice. I think the American people are ready to sacrifice, if they think it is done on a fair base, fair share, and you just made an excellent point, that part of the sharing of the sacrifice has to be done by the Federal Government itself. It is not just all the segments of the population.

In the Democratic Leadership Council's book "Mandate for Change," there was a proposal that would require every spending

and tax expenditure to have a sunset provision requiring reauthorization every 7 years as another way to get at bringing us back into balance, making sure that every government program that is created doesn't, therefore, earn its way into perpetuity and immortality—I almost said immorality. I will leave it there. What do you think about the proposal?

Mr. PANETTA. Again, I think it is a standard that we ought to try to look at in terms of programs. Whether, in fact, we actually have to sunset them or not I think is something we ought to closely look at. Nevertheless, it is no excuse for us not looking at these programs.

We have gone through an era, really, where we kind of built programs into an entitlement mode, because we were concerned about the year-to-year appropriations process, because we were concerned that programs could be targeted on a year-to-year basis then for reductions. There was then a move to try to move more and more programs to the entitlement side of the ledger, and now I think we are paying a price for that and I think we have got to try to return some of the discipline to that area.

So I guess my answer to you is that, whether or not you have to actually sunset, we can look at, but I think we clearly have to have a process of carefully reviewing and not being afraid to look at all entitlements to determine whether there can't be savings achieved.

Senator LIEBERMAN. Another bite at the apple in a different way is represented by the general subject of government reorganization, which Members of this Committee have been interested in. I know that you introduced legislation while in Congress to create the commission to examine Executive Branch reorganization. Can we expect that you and the administration will make a similar proposal this year?

Mr. PANETTA. The President-elect I think shares the same concern that I do, which is that I think we have got to take a look at government, we have got to decide how we can improve the organization of government and, by doing that, improve the delivery of services. I think all of us understand that the fundamental objective we are trying to achieve here is trying to make government work for people.

The problem we have right now, very frankly, is that a lot of the organizations that are out there are organizations some of which developed during the 1930's, some of which developed during the 1940's, some that have lost their relevance to the kind of challenges we face in the 1990's and this next century. And it seems to me we have got to approach it with a fresh mind, look at some reorganizations that can take place in order, again, to improve the delivery of services to people, and I can assure you that that will be one of the areas that we will look at, as we approach the budget.

Senator LIEBERMAN. I appreciate that answer. As you know, there seems to be nothing more difficult in Washington or even in the State capitals, which from I came, than to terminate a government program once it is created, because it develops a constituency, it develops people who are working in it and it is just hard to end.

As the Comptroller General said to us the other day, a lot of our Federal Government is old and the Federal Government is no more

immune than any other institution that people have ever created from getting crusty as it ages, and part of what we have got to do is shake it up and try to eliminate some of that crustiness.

So I appreciate your answer and wish you well in that undertaking.

Chairman GLENN. Thank you, Senator.

Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you very much.

Let me again say how much I have appreciated working with the gentleman from California for 12 years in the U.S. House. In baseball terms, I think this really is a case where we are selecting a hitter to come up in a key situation. We are sending the right person to the plate on these issues. I enthusiastically support this nomination. I think Leon Panetta is the right person for right now for this job, and so I am delighted that you are here.

I would like to ask you about three areas: The first, which I know you expect, is the computation of Social Security in the deficit figures that are used around this table and in the press and to the American people. The second is the reduction in spending and specifically focusing on overhead. And the third is the computation of taxes most people estimate are owed by foreign corporations, but not paid to the Federal Government.

Let me start with the last point. There is a difference, Congressman Panetta, in what you have said and what President-elect Clinton has said on the issue of taxes owed by foreign corporations. President Clinton talked about the potential of \$40 to \$45 billion in taxes that are owed by foreign corporations but not now paid to our government.

The press sort of pooh-poohs that. The institutional thinkers in this town sort of dismiss it out of hand, and you have also been quoted as saying "ain't no way, maybe we'll get \$3 billion a year, if we're lucky." I would like to ask you to think through with me, just for a minute, a different approach.

I understand the figure of \$3 billion a year comes from the Internal Revenue Service. That is not something you pull out of the air. The Internal Revenue Service has an interest in low-balling this issue. For them to say that we've got \$10 or \$15 billion a year in revenue that we are not getting from foreign corporations is to admit massive failure, if not incompetence. So I would like you to look at just another dimension.

We are trying to tax integrated economic units in this world with a system that doesn't fit at all. It is an old archaic system in which all the theorists and the practitioners downtown and at the IRS talk about the arms-length method of transaction. It doesn't work, it can't work, it won't work any more. We need a formula approach for getting what we should get with respect to the economic activity of foreign corporations in this country and requiring them to pay taxes on it.

I will ask you a question, but I would like to read you something that was prepared by an organization that I used to chair called the Multistate Tax Commission. They indicated in a study they did that, with \$180 billion in transfer prices claimed by foreign firms, a moderate 20 percent misstatement of transfer prices would cause a \$12 billion loss to the Federal Government in revenues.

Similarly—and this is an important point—if the reported cost of goods to final sales were the same for foreign corporations doing business in this country as it is for U.S. corporations, the Federal Government would collect an additional \$11 billion a year. There is massive—I repeat—massive tax avoidance going on. It is not a billion or two or three a year.

President Clinton, in my judgment, is dead right. Now, to get at it, we have to change the formula, we have to go to a formulary approach that supplements what is now being done in an enforcement that doesn't work. We have to recognize new integrated economic institutions that are now able to get around our tax laws, despite doing a substantial amount of business in this country.

Would you support taking another look at this? I would like to work with you, with organizations like the Multistate Tax Commission and others who I think have done a lot of good work and whose work I support, because I think there is substantial revenue available to the Federal Government here?

Mr. PANETTA. Absolutely. Let me make clear that I don't oppose the objective here. Certainly, as I have said I am going to look at everything on the table, this is one of the areas that ought to be considered. Everybody ought to be providing their fair share, and that certainly includes foreign corporations that are doing business in this country. So I am more than happy to work with you in that effort.

I guess the real question is to make sure (a) that we can, in fact, achieve the kind of revenues that we are trying to get out of that area; and (b) obviously, we have got to be careful about its impact in terms of the business climate and make sure that we aren't creating any undermining of the effort to try to keep our economy growing in the future.

Senator DORGAN. Mr. Panetta, there will be an army of lawyers and lobbyists marching on this Capitol, if we even try to change the way we establish formulas for achieving what we should achieve in revenue from foreign corporations doing business in this country. It will be a blizzard of lobbying, but we must overcome it.

This is not green eyeshade stuff. This is \$10 to \$15 billion a year in lost revenue and it is also competitive issues. If corporations doing business here in this country comply with the tax laws that are certain, and others who live outside but do business in this country comply with the tax laws they can get around, they have a tremendous competitive advantage.

So I want to work with you and I have got a lot of information to impart to you.

Mr. PANETTA. As you know, as having been a Member of the Ways and Means Committee, if you do a tough plan and it is the kind of plan that I think the President-elect wants to do, there is going to be a hell of a lot of lobbyists descending on the Congress for a number of areas, and I think we are going to have to show some will and strength to confront all of those special interests and try to do what is right.

Senator DORGAN. I would just say the President-elect is right on this issue. We have an obligation I think in Congress, on behalf of the American people and on behalf of companies that stay here and do business here, to make sure that everybody who does business

in our country subscribes to the same tax laws. We have an obligation to develop a system that they can't get around and avoid paying \$10 or \$15 billion a year in taxes that they really should pay to the Federal Government.

You are familiar with a study that I did with the task force in the House called "The Challenge of Sound Management." It is a Task Force on Government Waste. In it, one of the recommendations was a 10 percent reduction in overhead across the Federal level—Congress, the Executive Branch, the whole thing.

When a business has problems, the first thing it does is cut overhead—expenses like travel and printing. It is the first thing you do. At the Federal level, across the government we have always appropriated money by telling agencies that they will get what they got last year plus a little additional. We have never said before we start, we will cut overhead 5 percent or 10 percent, because that's where you ought to start cutting. It is where any rational management would begin cutting spending.

The President has proposed a 3 percent cut in overhead. I propose to you that we can save either \$15 billion a year or \$30 billion a year, if all of us said, in a tough way that we will exact a 10 percent cut in overhead costs across the board in this government. Overhead costs are about \$280 to \$300 billion in indirect costs, so a 10 percent cut would exact about \$30 billion in savings. If we achieved only half of that, we are talking about \$15 billion a year.

Mr. PANETTA. We are obviously very familiar with your report and with your recommendations and we are looking at it very closely to see how far we can try to achieve those savings in management.

Again, when you do it across the board, you have to be careful of certain agencies and departments where you don't want to undercut their basic missions. But at the same time, I think there is plenty of room for some overhead savings.

Senator DORGAN. Mr. Chairman, if we have a second round, I very much want to ask about the use of Social Security revenues in the computation of the budget deficit, but I will defer on that.

Chairman GLENN. You want to do that now, you mean?

Senator DORGAN. I will defer on that. Will we have a second round?

Chairman GLENN. Yes, we will have a number of rounds here.

Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman.

In my opening comments, I complained about the games and gimmicks that we sometimes come to expect from the budget process, and I think one of the worrisome problems we continue to confront is the difference between the Executive Branch and the Congress over cost estimating on a number of different things. I am told that one reason why we run into some differences in estimates is that OMB may use one economic model, CBO may use another economic model, and it is not always just an ideological difference or a partisan politically driven motivation that causes these differences to crop up.

Let me ask you if you are going to try to bring some change to the system so that there will be less disparity in the estimating process as between CBO and OMB? What is your view about that?

Is that a problem? Is that something that you think should be addressed or changed under your administration?

Mr. PANETTA. Senator, we have actually made some improvement with regards to the differences between OMB and CBO, and I think, frankly, a lot of it was due to the budget agreement. When we developed the numbers in the budget agreement, we also required that OMB and CBO work closer together in terms of their projections, and they have done that.

There has been a significant improvement with regards to, for example, the area of defense, where there used to be dramatic differences between what CBO would project on defense spending and what OMB would project, and now those have drawn a lot closer together, and we are seeing that in other areas, as well.

We did have some differences with regards to some social areas, for example, looking at what Food Stamp projection costs would be in the future, and so there still remain some of those. And those are tough to get a handle on, as you know, because you are trying to figure out just exactly what the impact of a certain policy change will be in terms of the society and those that would make use of those benefits. But overall, it has gotten closer together in terms of OMB and CBO. I want to continue that effort.

I think it is very important for us to try to work as much as possible off of an agreed upon baseline, so we don't have this kind of game playing as to the projections, and let's talk about policies. We may have legitimate policy differences. That ought to be the focus of the debate. It ought not to be on whose baseline are you using or what your projected cost is, because, frankly, members have a tough enough time understanding the policy disputes, much less get into the baseline issues. So my hope would be to try to see if we can try to get as much of a common baseline as possible.

Senator COCHRAN. One traditional role that OMB has had is to review Federal Government regulations and try to determine what their cost impact will be in terms of cost of compliance, and the effect of a regulation on inflation in the economy. It has been a clearinghouse, in effect, for all Federal regulations. That is my understanding.

Is it your expectation that OMB will continue to serve as a place where regulations are reviewed to make determinations about the efficacy of the regulations?

Mr. PANETTA. There are, Senator, Executive Orders in place that basically require that we continue to do that. Obviously, we are going to probably be reviewing all Executive Orders.

But I can tell you this, that the President-elect is very committed to that continuing review process, because he wants to make very certain, as we review these regulations, that obviously we take into consideration the cost impact, the impact on the economy, and try to do as much as possible to try to minimize that kind of impact in the process of evaluating the regulations, obviously in line with adhering to the laws. And I don't want to play the game of trying to change the law through regulations. I think that is dangerous. But when you are looking to trying to implement those regulations, there are judgments that I think can be made that can minimize the impact on the economy.

Senator COCHRAN. There has been a Competitiveness Council in the Bush administration that had a similar responsibility to review regulations. Do you expect that there will be a Competitiveness Council in the Clinton administration, or will you end up having the responsibility, as Director of OMB, to undertake that obligation?

Mr. PANETTA. The Competitiveness Council, as I understand it, will come to an end with the new administration. It was not established by Executive Order. I think it was established essentially by policy of the old administration. So the Competitiveness Council, as such, will not exist.

However, I have talked to the Vice President and he indicates an interest in trying to establish at least a group that will continue to work with me in reviewing regulations.

Senator COCHRAN. I think Senator Levin asked a question about the office that actually has that responsibility.

Mr. PANETTA. OIRA.

Senator COCHRAN. Do you expect to make a recommendation to fill that office, which is subject to confirmation, I understand, and would come before this committee?

Mr. PANETTA. There is someone that is in that job now, and I will be obviously reviewing all of those who are in the present positions. But we do intend, obviously, to have someone in that post, because we are going to be taking on a much larger role, it seems to me, as a result of not having the Competitiveness Council around. It is going to be going through the process as it was established under the law, and that is going to take some real time and expertise on the part of the person who heads OIRA.

Senator COCHRAN. In response to the first question that Chairman Glenn asked you, you made a comment that any long-range deficit plan should include goals and also should be backed up with choices and enforcement. I am curious to know, given your support for the 1990 budget agreement and saying that is one of the best things that has been done by the Congress in terms of budget reduction efforts, whether you feel that we still need to have the statutory caps or limits on spending to truly enforce, by law, limits on spending in any deficit reduction plan.

Mr. PANETTA. I believe you have to have some enforcement mechanisms in place. Now, obviously, you want to look at what your deficit reduction targets are. There are probably some adjustments that can be made with regards to some of these areas.

For example, on the pay-as-you-go requirement, just to give you a small example, we now do pay-as-you-go on a 5-year basis. The problem with that is you can probably show that you pay for something in the first 5 years and then it explodes in cost after you get beyond the 5 years. I would like to extend the period out for a pay-as-you-go requirement.

The answer to your question is I like the elements that we have in enforcement in the budget agreement and I would like to continue most of those.

Senator COCHRAN. Thank you, Mr. Chairman.

Chairman GLENN. Senator Sasser.

Senator SASSER. Thank you very much, Mr. Chairman.

Mr. Panetta, you are I think embarking on the toughest job in government, bar none. You come in or you will come in as Director of the Office of Management and Budget, after what in my judgment has been perhaps a decade of the most irresponsible fiscal management at the Federal level in modern history, I think certainly in this century, and I want to commend you for undertaking this very, very difficult and tough job.

It might be helpful just to review history here for a moment and see where we are and how we got there. Now, you will recall the tax cut of 1981, which deprived this government of 20 percent of its revenue base. According to numbers issued by President Reagan's Office of Management and Budget just before he left office, that tax cut deprived the Federal Treasury of almost \$2 trillion in revenues between 1981 and 1989. And during that period of time, we were increasing discretionary spending, principally military spending, by about 30 percent in real terms.

So it is no mystery as to how we arrived at this station of departure where we find ourselves now. Indeed, the only discipline and systematic attempt to deal with the deficit was the budget summit agreement of 1990, in which you played an instrumental role, as did Senator Domenici and as did myself and a lot of—Dick Darman gets a lot of grief around here, but he also had the courage to step up on that particular issue—and we put in place enforcement mechanisms to try to stop the hemorrhage of the deficit here in Congress and with the administration, and it worked in the sense that the deficit was not increased by policy decisions enacted into law by the Congress and the administration during the tenure of this budget agreement.

I think any objective observer who knows the score would say that.

Now, one of the things that has disturbed me, though, is the fall-off in revenues and our inability to make an accurate projection of revenues. In July of 1991, just after the budget summit agreement was passed, Mr. Darman appeared before the Senate Budget Committee, and I suspect before the House Budget Committee, also, and announced that we were going to lose \$130 billion in revenues over the 5-year period. Indeed, all of the revenues that we had labored so hard to garner under the budget summit agreement were going to be lost, because of faulty predictions coming from the Treasury Department.

Now we find that OMB is telling us that, over the next 5 years, we are going to lose \$214 billion in revenues between January of 1993 and 1997. So we have got a real problem here with this economy producing the revenues with which to deal with the deficit or to finance the government, and that is a very integral part of our deficit problem, and I think you would agree with that.

So I am pleased to hear you say today that it is not an either/or proposition with regard to reducing the deficit or making some investment in the economy in an effort to try to induce growth and to increase revenues.

Now, let me come to this question: Have you formulated in your own mind the degree to which the economy needs to be growing before we can take on a serious substantial fiscally contractionary step? By that, I mean we have to have an economy growing at

about 2.5 percent or maybe a bit more, before we really start getting in here and trying to chop down the spending or increase the revenues to deal with the deficit. It is a tough question, but I am just interested in how you would respond to it.

Mr. PANETTA. Well, it is a tough question, because you obviously want to do this in a sensitive way that considers what is happening in the economy, are we beginning to move in the economy, are we beginning to see some growth.

The other aspect of this is that, while we can talk about deficit reduction and investments, I have to remind all of you—and I think you are all aware of this—that, in terms of the economy, there are also other factors that impact on whether or not the economy is going to do well. One is do you get the cooperation of the Federal Reserve with regards to monetary policy.

Senator SASSER. Precisely.

Mr. PANETTA. If, in fact, you put in a credible deficit reduction plan, then we ought to have cooperation, it seems to me, from the Federal Reserve in terms of monetary policy, but it has got to be a credible plan.

Second, it depends on trade policies. Obviously, if we continue not to be as competitive as we are at the present time. If we don't become more competitive, if we aren't improving our trade position, that is going to impact in terms of our future, as well, so that is another factor that is at play here in terms of our economy.

So the point is that there are some other factors here. But if we can design a credible deficit reduction plan that makes the choices, and we combine that with an investment package, I guess my hope would be that we would try to up-front some of that investment into the areas that I talked about, whether it is education or whether it is R&D or whether it is infrastructure, and then, through decisions made this year on the deficit reduction plan, show that we are serious about getting the deficit in control at the same time. I think we have got to try to balance those two.

Obviously, you can't do as much deficit reduction up front, because of the impact on the economy, but I think you can make the decisions this year that say this is where we are headed in the next 4 years.

Senator SASSER. Well, I couldn't agree with you more.

One final question, Leon, because I see the yellow light has come on here: When we talk about capping entitlements, and we are all very much concerned about entitlement growth, but I think you will recognize, and I am sure you do recognize, that 95 percent of the entitlement growth comes out of programs, Social Security, Medicare and Medicaid. When you back out Social Security, you find that 85 percent of the entitlement growth is coming from Medicare and Medicaid.

I was pleased to hear you say that we need to deal with this with policy decisions, rather than just simply capping it, because it appears to me—and say if you disagree, but it appears that if we simply put a cap in, then we are simply transferring the burden back to the private sector and, of course, with regard to Medicare, it means the poor get less health care. With regard to Medicare, it simply means that our older citizens are going to have to pay more for their health care.

How do you think the administration is going to move to deal with this problem? Are we going to get a comprehensive policy plan here? Is that being discussed, or is it too early to tell?

Mr. PANETTA. That, frankly, is the principal focus of the President-elect with regards to the health care area. He is very aware, as we all are, of the tremendous escalation in health care costs and the fact that if we don't get a handle on this, no matter what else we may try to do, we are going to see the ground just continue to move away from us with regards to those costs. They are just increasing dramatically. We are going to be approaching \$500 billion annual deficits largely because of this dramatic increase in entitlements and also the increase in the interest payments.

On the health care area, I think the view is—and I think most Senators would agree with this—that if you are going to do the kind of cost control that has to be done through policies, trying to control those costs on providers and on the institutions of the health care delivery systems, you have got to integrate that with a health care reform proposal that basically tries to deal with the accessibility issue and tries to deal with the huge problems that currently exist in the health care system, 30 or 40 million Americans that have no health care, the ability to try to deal with the tremendous problem on insurance policies and the fact that they don't provide adequate coverage at a tremendous cost on premiums. You have got to address all of these issues in a comprehensive health care proposal, and I think that is the President's hope, that it is in that context that we can deal with the issue of cost controls in health care.

Senator SASSER. Thank you very much.

Chairman GLENN. Senator Domenici.

Senator DOMENICI. Thank you very much, Mr. Chairman.

Chairman Panetta, I came for two reasons: First, I came to put on the record and state publicly how pleased I am that the President-elect selected you. In my opinion, when you look at the gamut of American problems, he picked the right person for the one that is the most difficult of American problems, the budget deficit. Much is said about it and the rhetoric abounds, but when you get right down to it, you can't fix it with business as usual. You can't leave everything like it is, give everything to everybody that they now get and say we're going to fix this deficit.

Neither can you say we are going to tax the American people the difference between zero and the current deficit and make the taxpayer pay for it. That is fraught with absolute folly. In fact, I am not so sure we should raise taxes to pay for any new program, because I think any increased taxes, if ever under a great plan that can be carried out, ought to go to deficit reduction.

I want to congratulate you, because I think your hard work, your dedication, your absolute steadfastness in some very unpopular areas you knew were right, I have got a lot of confidence that your perseverance finally worked to your benefit, and I congratulate the President in that regard.

Now having said that, let me make sure that you understand that I only want to establish a few benchmarks here. I am not going to go read your bill so I can question you on page 43 about something inconsistent with the President-elect. However, I will ac-

knowledge right up-front, your deficit reduction plans are very, very different than President-elect Clinton's in his book "Putting People First." No doubt about it, you have always thought there is much more hard medicine necessary than is thought in this 4-year plan. Everybody knows it is 4 years and stop. It did not talk about 1997, 1998 and 1999. It was 4 years and it pledges to cut the deficit in half.

Now having said that, you also know, and let's state one more time on the record, Governor Clinton and his advisors chose never to use OMB's numbers for their budget. They used CBO's. Is that not correct? OMB numbers are not in this and, for some reason or another, maybe OMB was not as credible in their mind, but they didn't use OMB's numbers.

Second, I would like you to state one more time in general terms—and if you would like, I will give you the numbers—that there is not a very big difference between CBO's 1996 deficit projected in August in 1993, 3 months before the election, and OMB's 1996 numbers that were issued a week ago. Is that a true statement? In fact, it is much smaller than one might have expected. I believe it is \$12 billion in its totality. Does that sound right?

Mr. PANETTA. Generally.

Senator DOMENICI. So if George Stephanopoulos the other day was suggesting that the President can't cut the deficit in half, because we now have much more exorbitant deficits, he certainly was not talking about the first 4 years, because they aren't very different after OMB than they were in August of the election year. Is that a fair statement?

Mr. PANETTA. Again, they were operating on the basis that this baseline would improve, even under CBO. As you know, CBO basically reflected at least in these first few years, as a result of the budget agreement, that we would be able to grind that deficit downward, because of the policies implemented in the budget agreement.

What has virtually happened now is, because of the revenue loss and because of the increase in these other costs, we have basically lost the benefit of that baseline situation.

Senator DOMENICI. Those two numbers were the operative numbers 3 months before the President was elected, \$266 billion and \$254 billion. It isn't \$70 or \$80 or \$90 billion or whatever the difference is, it is \$12 billion.

Now, can you solve the deficit problem of the United States, in your opinion, with sound economic principles, without addressing the entitlement programs of this country?

Mr. PANETTA. Absolutely not.

Senator DOMENICI. Now, when I say you must address them, and you say absolutely not, I assume you are not saying that we have to cut the entitlement programs of the poor people of this country, are you?

Mr. PANETTA. Obviously, I have always taken the position that we ought to try to protect the safety net programs that try to help the poor.

Senator DOMENICI. There are plenty of entitlements—

Mr. PANETTA. Incidentally, that is not where the problem is, as you know.

Senator DOMENICI. That's correct.

Mr. PANETTA. I mean the problem is not the growth in that area, although a recession doesn't help you much with regards to some of these programs. But the biggest culprit is health care.

Senator DOMENICI. Chairman Panetta, when you speak of reforming or changing the entitlements, some have assumed already in this hearing that on Medicare and Medicaid, of necessity, you are cutting the programs for those who need health care under Medicare or Medicaid. Is that the only assumption one can make with reference to saving money in health care, that you must cut those programs?

Mr. PANETTA. As you know, it is not necessarily the case. I mean, obviously, there are some areas that you can tighten up on some of the benefits provided, but you can also look at premium increases, you can look at co-payments, you can look at co-insurance areas. There is a whole series of other areas that can be looked at.

Senator DOMENICI. But more basic, does the United States have to live forever with its health care programs, government and private, growing at 13.5 to 14 percent a year?

Mr. PANETTA. It can't sustain that.

Senator DOMENICI. So they can't sustain it and we have to reduce that increase?

Mr. PANETTA. That's correct.

Senator DOMENICI. And nobody is suggesting that reform is trying to throw people out in the street, they are trying to fix the delivery system, aren't they?

Mr. PANETTA. That's exactly right.

Senator DOMENICI. And that is what you are advocating, that you would rather have policy changes than caps. Might I suggest, and see if you agree, you can have a combination of the two and that might really work, because you might set caps which will force policy changes, if you give them enough time to do it. Is that a fair assessment of things?

Mr. PANETTA. Let me indicate that, obviously, my preference here is to try to deal with these issues on a policy base that is incorporated, as I said, in a health care reform plan, because then you are basically saying to the country this is what we want the health care system to look like, this is what we want to try to provide in terms of curing the problems in the existing health care system.

My concern from a budget point of view is really the time frame, can we in fact get that kind of broad health care reform in place in time, and if we can't, I at the very least want to be able to assert a number that says this is the number we want to achieve in savings, so that we have got something built in as a guidepost.

Senator DOMENICI. Three quick ones that don't require much explanation: Have you yourself reviewed the CSIS proposal that Senators Nunn and myself chaired?

Mr. PANETTA. Yes, I have.

Senator DOMENICI. Do you know whether it is being looked at by the President's people or some or all of its changes in government policy?

Mr. PANETTA. We have analyzed it and incorporated some of its elements with some of the options we presented to the President.

Senator DOMENICI. When do you intend to submit the President's budget to the Congress and the American people?

Mr. PANETTA. Senator Domenici, obviously, the first order of business will be for the President to present his economic plan to the country, and my hope is that we can present enough within the context of the economic plan to try to at least get the budget process moving forward in terms of a budget completion.

Then I would hope to present a full budget to the Congress. Our hope is to try to see if we can complete a budget presentation by hopefully sometime in mid-March.

Senator DOMENICI. My last question is, I am going to just tick off and you call me whether—

Mr. PANETTA. Incidentally, just to clarify, the presentation of the economic plan would obviously be much earlier. Our hope there is to try to do that sometime in February.

Senator DOMENICI. So you might do that before the budget, not in it?

Mr. PANETTA. Correct.

Senator DOMENICI. I want to ask you if these are gimmicks, henceforth, as you run the OMB or not: Capital investment budgets, is that a gimmick or not?

Mr. PANETTA. I have always felt that we ought to analyze a capital budget presentation, but we ought to be very careful that we don't use it as an excuse to expand borrowing in the Federal budget.

Senator DOMENICI. Pay date shifts?

Mr. PANETTA. I am opposed to pay date shifts.

Senator DOMENICI. Enhanced IRS enforcement as a means of filling in revenue gaps?

Mr. PANETTA. That has been a wonderful tool we have used in the past over and over and over again, but I think we have got to be careful about including it with any kind of big number in the future.

Senator DOMENICI. Revenue shifts?

Mr. PANETTA. I am opposed to using the revenue shifts.

Senator DOMENICI. Economic assumptions from OMB more optimistic than CBO?

Mr. PANETTA. I think we ought to try, as I said, to try to stick as closely to CBO as possible, so that we are both working off the same guidelines.

Senator DOMENICI. Thank you very much, Mr. Chairman.

Chairman GLENN. Thank you.

Mr. Panetta, with regard to the IRS that Senator Domenici mentioned a moment ago, we had testimony a year ago that the government is owed some \$110 billion in accounts that should be collected. Now, a lot of that money is by people who have filed bankruptcy or businesses have filed bankruptcy, and so on. But testimony last Friday indicated there is actually \$30 billion out there by non-bankrupt people and companies and individuals that we just should go after and get. So it is not a small item.

A different area: The President-elect has proposed to reduce Federal employment by about 100,000. Now, whether you say the average government employee makes an average of \$30,000 or \$40,000, somewhere in there, that would come out to \$3 or \$4 billion. And

I understand, the Administration plans to cut administrative expenses by 3 percent a year.

I have been concerned for some time that one of our biggest problems in government, and one of the most difficult ones to deal with, is our capacity to manage programs, our capacity to manage the mission of government, and the General Accounting Office has studied this thing. And I am not sure that just by cutting people, attractive though that sounds, we are going to be a leaner meaner government that is going to operate more efficiently. I am not sure that that would necessarily follow.

I am concerned that, with the increasing complexity of Federal programs, we may be just hollowing out government to where we will be less able to do things.

And one of the things that has disturbed me is the fact that high-level management in government—I don't know whether you are aware of this figure or not—is in office for 21 months. High-level department managers are in office for an average of 21 months across government. You cannot run anything of any complex nature, if people are going to stay in for 21 months.

I personally would be far more concerned that, instead of emphasizing and making such publicity out of the fact that people cannot deal with government for 5 years after they are out of government, I would like to put some term minimums in on what they will serve. It seems to me that is more important for government than all this worry about whether they are going to do something bad in 5 years after leaving government. I am concerned that they stay in government long enough to get some managing done to improve government while they are here, not just come in to get their ticket punched and get something on their biography so they can go out and get a big job some place.

I don't know what your thoughts are on that, but Charles Bowsher over at GAO is concerned about this. You hark back to some government programs, like the one Rickover ran. He was given authority and used it, he ran a tough program, a most efficient program. We need more people like that.

Mr. PANETTA. Senator——

Chairman GLENN. I don't know how you do that and how you influence that from OMB.

Mr. PANETTA. Obviously, again, there are a lot of agencies that have to work together on this issue. But I couldn't agree with your basic point more. Obviously, there are ways to try to improve the objective and goals that we lay out for various agencies. I think the approach that Senator Roth has suggested in terms of performance based budgeting is obviously something we need to look at closely.

But, you know, the bottom line is you need good people in government to do the job. I don't know that there is a paper check I can produce that can replace getting a good person in a job and doing it, being committed to it, being committed to public service, being committed to making that agency work better. We need good people in government.

And when you tell me that people are moving out on a 21-month basis, that says a lot.

Chairman GLENN. We are improving. About 2 years ago, it was 19, so we are improving dramatically here. We are up to 21. It's not enough.

Mr. PANETTA. That tells us a lot about the problem we are having. But we have got to get people that are committed to working in these areas and, frankly, we have got to obviously provide the incentives to ensure that if they do a good job, we are going to reward the people that do a good job, and I think that is the area we ought to look at a lot more than we have.

Chairman GLENN. Do you think job satisfaction is it, or is it pay, or do you have any thoughts on it? You have been around government a long time and you have watched this thing just as I have. We have been dealing with this for the last couple of years. We put the CFO Act through, that this committee put through, my legislation. It is just coming into play right now. You are going to be required to administer that over there.

We expanded the IG's. They had 6,177 successful prosecutions last year through the IG's alone and got us back almost \$1 billion. That doesn't balance the budget, but it is a step in the right direction, over \$800 million is the figure. But do you have any thoughts on how we get better people? How are you going to inspire good people to come into your OMB operation?

Mr. PANETTA. It sounds naive, but I think it has a tremendous impact, when a President-elect basically sends a message to the country, as John Kennedy did when he became President, that he wants good people in government, that there is a need for people to give something back to this country. When you send that kind of message out, people are going to be much more excited about and interested in government service. Right now, you know, government service is not viewed as the best way for good people to serve their country and they go off in other areas. I think the message has to go out—

Chairman GLENN. Almost any government program will work, if you have good people.

Mr. PANETTA. Exactly.

Chairman GLENN. If you don't have good people, the most complex, most thought-out laws that we can pass up here on the Hill aren't going to mean a hill of beans, in my view.

Mr. PANETTA. That's the problem.

Chairman GLENN. I just think that has to be a priority. I don't have any answer myself, but I know you are going to be right in the middle of it over there and can have an impact on this and I hope you try and deal with that.

Mr. PANETTA. As I said, I think, obviously, working with the President-elect and the kind of message he sends to the country, I think we can design some incentives that really say if you are committed to serving the public, if you are committed to doing your job, if you can achieve not only a savings, but deliver those services in an effective way, we are going to reward you.

Chairman GLENN. We have a whole bunch of things. We have Gramm-Rudman-Hollings. We have the Budget Enforcement Act. We have used all sorts of processes. We call for sequestration and spending caps and pay-go processes, and so on. Do you plan to retain all of these, or is there some new proposal? It just seems to

me we have come to depend on a lot of gimmicks and automatic this or that.

The President is really the budgeter for this country, and over the last 12 years we have had the most unbalanced budgets in all American history submitted to us, and then within 60 days Congress gets criticized for not cutting more out of what was just submitted.

Now, somehow we have to reverse this. We have to have, as you pointed out earlier, honesty in government. But all these things that are sort of gimmicks. Do you plan to keep all those things in as they are, or do you have some new proposal here that is going to take us out of this morass that we have gotten ourselves into?

Mr. PANETTA. Senator, there is not a mechanism you can put in place, there is not a procedure you can put in place, there is not a constitutional amendment you could put in place that replaces the leadership that the President has to provide on this issue. There just isn't. I can come up with all kinds of solutions, too. All of us can. The bottom line is you need strong leadership from the President and strong leadership in the Congress to get this job done, and I am confident that this President recognizes that and is prepared to provide that leadership.

Now, obviously, in terms of enforcement procedures, as I said, if you are going to put a plan into place, you have got to be able to have some teeth there to make sure it is going to happen, because I think it does depend on its credibility. But I think what we did in the budget agreement, frankly, provides the tools that we ought to look at.

Some revisions, as I said, could be incorporated. But I don't want to put a whole host of other mechanisms into place here. I think the President has got to tell it straight to the country. I think he is prepared to do that, and I can assure you, if he does, I think that is going to be the biggest push for any deficit reduction plan that we put in place.

Chairman GLENN. Thank you.

Senator Roth.

Senator ROTH. Mr. Panetta, the President-elect, as I indicated in my opening statement, is going to have to make a very critical decision with respect to what is called the maximum deficit amounts. Under current law, the old Gramm-Rudman sequester system will become enforceable again in 1994. If it is fully enforced and the current maximum deficit amounts are in effect, the deficit will decline as shown on this chart.¹

If, however, on the 21st, the then President decides to relax the maximum deficit constraints, the basic deficit will remain near current levels, as you can see, \$274 billion here as compared with \$294 billion in 1995. Whereas, if he doesn't relax them, you will have that drop to \$230 billion.

This is a very key signal as to the intent of the new administration, as to what it intends to do about the deficit. Do you think he will allow the current maximum deficit targets to remain in effect, or do you think he will allow them to float upward?

¹ The chart referred to appears on page 157.

Mr. PANETTA. As part of the options we are presenting to the President, we are also presenting options to be considered with regards to the decision on the 21st. I think the key is always here that if, in fact, you are going to put a plan in place that is going to achieve that kind of savings, I would prefer to do it again on the basis of a deficit reduction target, as opposed to some kind of fixed deficit target out there.

I think part of the problem with Gramm-Rudman—and it did do some good around here in terms of its discipline, but when it set an unrealistic target about where the deficit was going to wind up, then, obviously, the Congress and the administration wound up changing the law. I don't want to get into that box. I would prefer to set a deficit reduction target and stick to that, and it is in the context of that that I think the President is going to make his decision as to what should be done on the 21st. But I can assure you of this, that regardless of what decision is made, our goal is to try to seek that kind of savings.

Senator ROTH. There is, of course, talk about a short-term package and a long-term package. In fact, I think you were quoted as saying in the recent Economic Summit in Little Rock that we cannot grow the economy without a very serious and credible long-term deficit reduction program.

You further said—and I think there is a lot of truth in what you say—that if you do have a stimulus package, a short-term package, let me assure you, Congress loves to pass the sugar but hates to deal with the vinegar—never a truer word spoken—which is the deficit reduction part of it. So it does have to be locked into a single package, if you are going to be able to get it through. Is that what is going to happen? Are we going to have a single package?

Mr. PANETTA. There are three parts that are being considered right now. Obviously, the first is the deficit reduction path and developing that credible path. Second, it is the long-term investment path, what areas do we want to target for long-term investments and how much and over what period of time.

And then the third issue that obviously is looked at is do you do a stimulus package up-front, is there a way to do a stimulus package, does the economy need a stimulus package. Frankly, again, all of these options are being considered and no decisions have been made.

I think the stimulus package depends, obviously, on what is the state of the economy, are we beginning to come out of the recession, at what rate are we coming out of the recession, is there a need for some targeted incentives here, can you in fact—a stimulus package, just by virtue of the definition, indicates that you are going to get money out there in a quick fashion, that it is not going to take you 8 months or 12 months in order to be able to provide those incentives, and so that has to be evaluated, as well.

My concern is that if, in fact, you have a stimulus package up front, that you can't take all of your long-term investments and move them up front, because if you do, then you fall into this concern that you are going to try to pass all of the spending up front, without dealing with some of the tough choices that are going to be part of the deficit reduction plan.

So I would hope—and I think the President-elect agrees with this—that you have got to package this as much as possible, and that if you can package it and limit the votes on that kind of package, that that is the best way to do it with the Congress.

On the stimulus issue, I just have to tell you that is something that again is being looked at on a different track as to what should be part of that stimulus package and whether or not the economy, in fact, needs that. Those are still being evaluated.

Senator ROTH. As you well know, Congress is notorious for adopting stimulus packages too late.

Mr. PANETTA. I know that. That is the history and we have got to be careful of that.

Senator ROTH. I hope that the new administration will avoid that.

On health care, the President-elect, I think rightly, said that one can't deal with the budget deficit without dealing with the health care problem. Now, many are urging, understandably, that the savings in Medicare and Medicaid should be used to provide coverage for the 35 million Americans who are uninsured. In your written answers, you stated that the need to reform health care, to reduce the deficit and provide coverage for 30-plus million individuals, you endorsed that.

Now, if health care is to provide coverage for 35 million individuals, it obviously can't be used for deficit reduction. How do you see that being played?

Mr. PANETTA. You pinpointed a major issue that needs to be looked at, because, obviously, as you try to achieve savings in the health care area and at the same time provide the kind of health care reforms that we are talking about, to try to improve access and to try to improve the quality of care that is provided, that is going to cost money.

The challenge right now is to determine whether or not, in a health care reform proposal that involves cost constraints, can some of that still be used for deficit reduction, because it is obvious that a good chunk of it will be used in the reform package itself.

I guess my goal is to try to see if, indeed, there are some savings that can flow to deficit reduction. At the very least, I would want a health care program to be deficit neutral, so that it does not involve any additional costs beyond our willingness to pay for it.

Senator ROTH. One quick question. On "Meet the Press," the Speaker, Tom Foley, spoke in favor of increased gasoline taxes. Would you support increasing the gasoline tax?

Mr. PANETTA. Again, as I said, I operate on the basis that everything is on the table and I think you have to look at all of these options. Obviously, the gas tax is controversial. We have been through that battle before. Everyone is very sensitive about that issue. So I guess my hope would be that we could fashion a deficit reduction package and an investment package, without having to resort to that. But I think you can only make that decision at the end of the line in terms of what that package looks like, because the bottom line is that you clearly want to hit your deficit reduction target at the end of the road.

Senator ROTH. My time is up, Mr. Chairman.

Chairman GLENN. Senator Levin.

Senator LEVIN. Thank you, Mr. Chairman.

I agree with you that policy decisions are what we should be making, and not having arguments over baselines and projections, but I do want to clarify some of the numbers on those baselines, because they have been brought up already this morning.

The administration is now saying that the 1994 deficit is going to be \$18 billion more than what it said it was going to be in July. The administration is now saying that the 1995 deficit is going to be \$54 billion more than what it said it would be last July. The administration is now saying that the 1996 deficit is going to be \$49 billion more than what it said last July, and that the 1997 deficit is going to be \$69 billion more than what it said it would be last July. And those last 2 years, by the way, both assume that there would be some real spending cuts in domestic discretionary spending, so they may be rosy projections, at that.

Nonetheless, by my calculation, the OMB's combined deficit projection changed from last July to now by almost \$200 billion. That does not mean the deficit would be \$200 billion; that means that they have increased their projections for the deficit for the 1994 through 1997 time frame by almost \$200 billion just since last July. That is about a 20 percent increase in the deficit projection, and that again doesn't even take into account that the OMB probably low-balled the 1996 and 1997 estimates.

Now, what that means I think is that, even though there were changes in the deficit situation that were apparent by last August, that we should not be blinded to the fact that, at least according to the OMB, there has been a further substantial deterioration in the deficit situation since last August, and President-elect Clinton's plan must accommodate that deterioration. Do you agree with that?

Mr. PANETTA. I think that is correct. If you look at the report that was issued last week, even though it had something like 8 different baselines and you had to kind of wander through a lot of the numerical camouflage that was included in the report, the bottom line is that you had a further serious deterioration of the deficit and a serious problem has gotten even worse, and obviously it is a much more credible document, because they are using blue chip assumptions in terms of the economy, so that their numbers are perhaps much more credible than they have ever presented before, and it is based on that, that we now have a very real problem in terms of dealing with this huge deficit projection for the future. It is real. It is there.

Senator LEVIN. Let me ask you about that wandering through these budget documents. You and I have spoken before about the way in which budget numbers have been obfuscated in the last few years in the budget. It has been very difficult to pull out those numbers quickly.

One section of the Budget Act clearly states that the Social Security surplus should not be included in the calculation of the budget deficit in the budget submitted by the President. In last year's budget, which was submitted by President Bush in January, Mr. Darman came up with a number of creative ways to present the deficit on page 25, but none of which complied with that requirement of the Budget Act.

Will you include a calculation of the deficit without the Social Security surplus included, and will you present it in a manner that is readily accessible in any of President-elect Clinton's budget submissions?

Mr. PANETTA. Yes, we will.

Senator LEVIN. Similarly, during the Bush administration, the format of the budget presentation seemed to change each year and that made it very difficult to analyze it quickly. It took a lot of time to find out what was where in the budget. Sometimes, if you are really cynical, you might think that Mr. Darman did that on purpose.

Will you stick to a reasonably constant format, or at least is it your intent to stick to a reasonably constant format in the presentation of budget documents?

Mr. PANETTA. It is my intent to return to a presentation that ties in with the functional breakdowns that we have at the congressional level and that reflects exactly what we are doing function-by-function, rather than using the kind of presentation that I think has been very difficult for people to analyze. I think we ought to be straight and I think we ought to be honest about the numbers we are dealing with. I don't think there is any need to try to obfuscate the presentation of these issues in a budget.

Senator LEVIN. Senator Dorgan has raised the question of the tax avoidance by foreign corporations, and I want you to know there is a lot of feeling that he right about that. I know there is in the Senate, and I presume there is a lot in the House, as well.

You know, it is bad enough that our domestic corporations, when they try to export, run into discriminatory barriers abroad. It really rubs salt in the wound, when foreign corporations working here avoid taxes by phony statements as to what their costs are, particularly when a lot of those costs have to do with items that they purchase from back home which they incorporate into products which are made here in the United States.

When you talk about the trade deficit, by the way, I think it would be important for you to not just talk about competitiveness, which is obviously significant, but also part of that deficit is caused by those discriminatory barriers in foreign countries. So we can be totally competitive and still have huge deficits if we run into discriminatory barriers in other countries, and I think it would be useful, when you talk about that deficit, to include both aspects in your conversation.

There are some water quality standards for the Great Lakes which have been tied up at OMB beyond the length of time allowed by law. If confirmed, as I hope and expect you will be promptly, we would appreciate your looking into that holdup of those water quality regulations for the Great Lakes.

Mr. PANETTA. Yes, Senator. You have mentioned that issue to be personally and I have advised my staff of that issue, so that it is something we hope to focus on soon after we go in office.

Senator LEVIN. Finally, just to paraphrase an article in yesterday's *New York Times*, history has shown that economic powers decline because they lack the political capacity and the political will to negotiate policies of shared sacrifice.

You have embarked on a course of exercising honesty and will-power to reduce the deficit, and it is going to require policies of shared sacrifice or fair sacrifice.

In order to accomplish that, you have indicated that if you are going to have a short-term boost in spending to try to get an economy moving, if that is your choice, that you at the same time must have a deficit reduction plan that is in place. And I would only urge that there not only be a plan adopted, but that the implementation of that plan be incorporated in the action of the Congress and the President so that we don't, as Senator Roth would say, do the sugar part now and say we are going to do the vinegar part later, but, in fact, do both—legislate both at the same time so that the hard part is implemented automatically without the requirement of further legislative action.

Do you generally agree with that in your approach?

Mr. PANETTA. Absolutely. Senator, I didn't mention this before, but I think that we have a vehicle to do that. If we adopt a budget resolution on a fast time track, I think we can follow that with a reconciliation bill that will basically incorporate the decisions with regards to not only long-term investment, but also the deficit reduction steps that need to be taken. And it ought to be done in that kind of comprehensive fashion.

Senator LEVIN. Thanks. Thank you, Mr. Chairman.

Chairman GLENN. Senator Cohen.

Senator COHEN. Thank you, Mr. Chairman.

Mr. Panetta, once again we come to the dilemma of talking about short-term investment, meaning short-term spending increases, and long-term deficit reduction. You must have a "credible reduction plan in place." Would you agree that a lowering of the interest rates would perhaps provide the greatest economic stimulus in the short term?

Mr. PANETTA. It certainly would help a lot, that is for sure.

Senator COHEN. I went back and read the article you wrote in the *Los Angeles Times* on June 24, 1983. At that time you were quite concerned about the \$190.2 billion deficit and what the impact was going to be upon interest rates, and that increasing the deficit to any significant degree would undermine the budding recovery. I think that is a question that all of us have to ask and you to answer, if not today then at some point, in terms of what you believe would be the top amount of increase in the deficit in the short term that could be tolerated without setting off higher interest rates which will undermine any recovery rather than providing a stimulus for it.

Mr. PANETTA. I think it has to be very limited, Senator. I don't think you can have a huge package up front because that just makes the long-term problem that much more difficult.

Senator COHEN. The numbers that have been talked about have ranged anywhere from \$20 billion to \$60 billion. I assume that you are talking down closer to the \$20 billion figure rather than the \$60 billion?

Mr. PANETTA. Correct.

Senator COHEN. When you talk about credible enforcement mechanisms, I assume you mean sequesters?

Mr. PANETTA. Correct.

Senator COHEN. Do you also mean automatic surtaxes?

Mr. PANETTA. Well, I have often felt on the enforcement side, just to let you know my concerns, that first of all the sequester base is too limited. It should be much broader. The problem with the sequester threat is that the only entitlements it includes right now are Medicare and agriculture. And very frankly, if you are going to have a meaningful sequester, you probably ought to broaden that base to include other programs.

I have also indicated that if you fail to meet some of your revenue targets, maybe we ought to look at a mechanism to try to deal with that aspect as well.

Senator COHEN. As a matter of fact, that was included in your own budget proposal, was it not?

Mr. PANETTA. That is correct.

Senator COHEN. And you would also have similar recommendations for the incoming President?

Mr. PANETTA. Well, I obviously would present a set of options, but I think that would be included as one of the options.

Senator COHEN. All right. Senator Lieberman said that you should act boldly both on the cutting side and the revenue-increasing side. Should we be anticipating an increase in the top marginal rate from 31 percent to 36 percent? Is that a bold stroke by the Clinton administration?

Mr. PANETTA. Well, obviously, any kind of revenue increases are a bold stroke because of the fact that most members resist doing anything on that front. But obviously you are going to look at a set of options on the revenue side, and clearly the President-elect has indicated that first priority is to ensure that the wealthy pay their fair share, so some kind of increase in the upper rate will clearly be part of that package.

Senator COHEN. As well as a surtax on millionaires? Should we expect that as well?

Mr. PANETTA. I believe that would be part of it.

Senator COHEN. As Chairman of the Budget Committee, did you support a repeal of the tax on luxury items?

Mr. PANETTA. I supported the repeal only in the context that it would be revenue neutral, that they replace those revenues in other ways.

Senator COHEN. But that was one tax that was passed and had a counterproductive element to it. Instead of taxing the rich, you ended up putting people out of work.

Mr. PANETTA. The process that occurred in the budget summit, just for the record, was that there were many of us that at that time were advocating go ahead and just raise the upper rate at that point. But the administration resisted raising the upper rate and, in fact, then offered a set of luxury taxes on the argument that that was the way to raise taxes on the wealthy.

I raised questions at that time about whether or not, in fact, that would be an effective way to do it. Nevertheless, that was adopted, and I think it did prove to be ineffective.

Senator COHEN. You correctly focused on the reformation of the health care system as being key to getting control of the entitlement spending. President-elect Clinton in the spring expressed, I think preliminarily at least, his support for a so-called "play or

pay" type of program, and then moved away from that toward the end of the campaign toward global budgeting. I assume that you are familiar with the managed care proposal that also has been talked about by the Clinton administration. Mr. Alain Enthoven has indicated that global budgeting is completely inconsistent with a managed care system.

What is your view on that?

Mr. PANETTA. Well, again, a lot of these options, particularly in the health care area, are being looked at because there is a myriad of elements to consider as you try to package it.

I guess my concern would be if you are going to develop a competitive care approach, you have got to be assured that at the bottom line you are going to get the savings. It doesn't do you a lot of good to do competitive care if you are not going to achieve cost controls in terms of where health care is headed.

So I guess I am willing to look at a number of different options on that front, but as I said, I don't think you can simply have competitive care without being assured that you are going to get a certain level of savings in terms of the overall health care delivery system.

Senator COHEN. I have read some reports that the President-elect is supporting the notion of increasing investment of public and private pension funds into infrastructure and other types of public endeavors. What is your view on that?

Mr. PANETTA. Again, it is an area that has been discussed. I would be somewhat concerned about using those kinds of funds for that purpose. I think we have got enough problems, frankly, on pension funds right now, particularly with ERISA and some of the elements there, that the last thing we want to do is create another S&L crisis with regards to pension funds. We have got to be very careful about that.

So I would look at it with a great degree of caution. I think if you want to do infrastructure, and I think we ought to do infrastructure investment, we ought to do that on the basis of a budget that is willing to commit funds for that purpose.

Senator COHEN. A final point on fire walls. The fire wall has come down; it no longer exists. Your State has been hit relatively hard by defense cuts and perhaps will continue to suffer into the future as far as people being laid off from their jobs.

In the past, the notion has always been, if we just take it out of defense, we can apply it to the domestic agenda and start dealing with some of the social ills that confront this country.

What is your view with respect to future defense cuts? Since we no longer have a fire wall, there will obviously be some attempts made to take more out of defense. Do you recommend that we spend those "savings" in the defense area on social programs? Should it be for retraining of the workers who have lost their jobs? Should it be for defense conversion? Could you give me some idea of what you are going to recommend in the way of future cuts in the Defense Department?

Mr. PANETTA. As I indicated at the beginning, I think you clearly have to look at defense savings as part of a comprehensive deficit reduction proposal, and I think there is room there for additional savings, assuming that the world situation can at least remain rel-

atively stable. I get more concerned every time I get up and read the newspapers as to whether or not that is going to be the case. But obviously if it can remain relatively stable and if we can develop some multinational forces to try to assist us in these efforts, then I think we can achieve some additional defense savings beyond what the Bush proposals would provide for.

Senator COHEN. How would you apply them? Would you apply it to deficit reduction, or would you apply it to other programs?

Mr. PANETTA. Well, you would want to do it, obviously, in the context of an overall plan, and part of that obviously, then, would have to go for deficit savings. This isn't just going to be simply a question of transfer. I think you are going to try to look at a package based on its defense piece, its non-defense piece, its entitlement and revenue piece, that gives you a certain amount of savings. Obviously, a portion of that hopefully could be used for some of the investments.

But I am not just for an automatic transfer, you know, take it out of defense, put it into non-defense. I think it ought to be part of the overall package of savings that you are looking at.

I have a post in my area, Fort Ord, that is being closed as a result of defense reductions, so I know what kind of trauma communities have to go through as they try to deal with it.

On the other hand, I think it also offers an opportunity to make some important transitions here. We are looking, for example, at the possibility of establishing a university there, and it will be a 4-year university focusing on marine sciences. It is a great opportunity for that area to establish something that I think can be very helpful in the long term.

It is not easy. It is not easy, when you are dependent on defense dollars, to make the transition to domestic uses of one kind or another. It is not easy for a community to go through. And yet I think that is what we have to do. But to do that, you have got to put some money in conversion, and you have got to show these communities that you are willing to assist them in making that transition.

So the answer to your question is, yes, you can do more in defense in terms of savings. Part of that ought to go for deficit reduction; part of it also has to go into conversion.

Senator COHEN. I would just like to say that I would be willing to swap the problems that you have in converting Fort Ord with those that we have in dealing with Loring Air Force Base.

Mr. PANETTA. I know. I know. I am familiar with that.

Chairman GLENN. Senator Dorgan.

Senator DORGAN. Mr. Chairman, thank you very much.

Congressman Panetta, what is the estimated deficit for this fiscal year that you are currently operating with?

Mr. PANETTA. I believe we are looking at about 327 for the 1993 year.

Senator DORGAN. And how much of that deficit includes revenues, including interest revenues, from the Social Security trust funds?

The reason I ask the question is to follow up on a question asked by a previous member of the panel. You know that I offered in the House—and it was passed and eventually became law—a requirement that we not use moneys from the Social Security system to

show a reduced operating budget deficit, but the fact is it is still being done. Everything you read in any publication in this town, especially and most importantly in the official publications, talks about a deficit that uses money from the Social Security system to show a reduced operating budget deficit.

I will bet that back in 1983, when the Social Security reform bill passed Congress, it wouldn't have gotten 10 votes combined in the House and the Senate if you would have offered this proposition: we would like you to vote to increase the payroll taxes so that those increased regressive payroll taxes can be used as a massive source of revenue with which we can show a reduced Federal deficit.

So the question is: When the deficit is described as \$327 billion for this year, what honestly would the deficit be described as if we didn't have the revenues in the Social Security trust fund this year to use to show a reduced deficit?

Mr. PANETTA. Well, obviously, you would have to add probably another \$50 to \$60 billion on top of that, or perhaps even slightly more than that.

Senator DORGAN. So the deficit, the real deficit, is probably \$400 billion.

Mr. PANETTA. Closer to \$400 billion when you do that.

Senator DORGAN. If you didn't take—

Mr. PANETTA. That is correct.

Senator DORGAN [continuing]. The trust fund or the payroll taxes that are collected from every paycheck. The person who receives the paycheck is told on that little form that we are collecting this money for one reason: It is to go into a dedicated trust fund to be used for only one purpose, and that is for Social Security.

But isn't it, in fact, used for another purpose when everybody, including you, shows me a deficit figure for this year that uses the Social Security trust fund numbers to reduce that number for the current operating deficit?

Mr. PANETTA. Obviously, the discussion has always taken place on the basis of what has been called the unified budget approach, and that includes looking at those funds as part of the overall presentation.

I did indicate to Senator Levin—and I would assert that same proposition to you—that I intend in the budget to move that up front in terms of its presentation because I think the public ought to see what the full deficit is not using Social Security.

Senator DORGAN. But I wonder, even in terms of its presentation, if it should not be part of your answer in terms of what is the deficit this year. The deficit honestly is about \$400 billion, give or take? Because if you subtract first the Social Security revenues over expenditures this year, you are really misusing that Social Security money that is coming in from the American people's paychecks. When I say "you," I am talking about everybody in this town, and historically since 1983.

Mr. PANETTA. You have made this point before, and I think it is—

Senator DORGAN. Repeatedly. [Laughter.]

Mr. PANETTA. I know that. It is important, I think, for the public to understand when we talk about these numbers, in fact, that we

are using Social Security and to indicate to the public what it would be if, in fact, we did not use Social Security.

Just to stress it, I am also in favor of the unified budget approach only because I think when you present a full budget, you have got to present what is there in terms of full spending, full revenues, as well as borrowing. The public needs to see a full picture of it, and Social Security still remains part of that bigger picture. But I agree with you. I think that you have got to make the statement so that people understand that you are, in fact, using the payroll tax and you are, in fact, using that fund to help reduce the deficit.

Senator DORGAN. Economists make the point about the unified budget. I used to teach a little economics in college, but I have been able to overcome that experience. The only reason we are running a surplus in Social Security—we are doing it by design—is that money needs to be saved and available for use after the turn of the century. If, by design, we are creating a surplus to be used later, but then use the surplus now to say our deficit is really lower, it seems to me we are not going to have it available in the future.

That is the only reason I think this is an important element, and I hope that we will have a continuing dialogue on that. And I hope the budget you submit will not be the type of budget that was submitted last year because it doesn't comply with the law, in my judgment.

Mr. PANETTA. I understand that.

Senator DORGAN. Let me ask you one other question, and, again, I think you are a perfect choice for OMB Director. I am an enthusiastic supporter of you for this position, and I wish you and the President-elect well. I think we have enormous problems and challenges in front of us, and I think finally we will end the gridlock. And everyone wants to see this country succeed.

But in terms of economic stimulus packages and those kinds of things, how do you view the situation now, and how does the President-elect view it now? Do you think, given what you have now seen in the new, more difficult deficit projections, do we need to try to provide a jump start? Do we need a fiscal stimulus package in the shorter term? Or should we try to set in motion solutions to the longer-term problems? Are you going to come to the Hill with investment tax credit recommendations and, you know, a series of those kinds of things because you think there needs to be immediate stimulus?

Mr. PANETTA. Well, again, all of those options are currently being analyzed. I think the first focus ought to be on the longer-term investments, frankly. I think that is key. When you talk about investment tax credit, when you talk about some tax incentives, when you talk about what you want to commit to education and infrastructure and R&D, those are long-term investments. And I think we ought to set that strategy out.

Now, whether you can take some of those long-term investments and perhaps move some of that up front into a stimulus package is essentially what is being debated right now. That is the way I would like to tie it. I think the package needs to be tied together so you are not trying to jump start the economy with something that doesn't fit into our long term investments for the country.

Now, as to what size that package ought to be, whether or not we ought to do it, those are the things that are currently being discussed. But I think, first and foremost, set that long-term investment package, show where you want to go in the long term, tie it to the deficit reduction package, and then you can debate whether you want to move some of that money up front.

Senator DORGAN. But where do you think this will come down if you were guessing today? Do you think that we might likely see some stimulus proposals from the administration in the new 3 to 5 months?

Mr. PANETTA. To be frank, right now the options have been focusing largely on the long-term investment package and on the deficit reduction package. Stimulus is an issue that will be discussed in these next few weeks so that we can evaluate the current state of the economy.

Senator DORGAN. Thank you, Mr. Panetta. Thank you, Mr. Chairman.

Chairman GLENN. Senator Sasser.

Senator SASSER. Congressman Panetta, in the last budget submission of the Bush administration, there were projections of discretionary spending in the out-years, and I wanted to get your views on those projections in the out-years.

As you know, the last budget submission simply assumes a nominal freeze, a hard outlay freeze on discretionary spending in 1996 and 1997. In your view, is that even remotely realistic? And if that were to occur, what impact would that have on discretionary programs, including defense spending or military spending that some people are very interested in in the out-years?

Mr. PANETTA. Well, I think that it probably fits Mr. Darman's Sesame Street descriptions. It is not credible to assume you are going to, in fact, cap all non-defense spending into the future, so that you are not even going to provide any inflation increases, particularly in education or R&D or health care, research or some of the other areas that are so important to our society. That is just not going to happen, and you and I know that, and I think to assume that in a budget document obviously tests the credibility of that kind of policy presentation.

Again, you and I both know that we have read these documents before and we know what is real and not real. If you push all of that aside, the bottom line is the deficit is going up and they haven't done much about it.

Senator SASSER. One other question. The hour is late, Mr. Chairman, and I will conclude with this. But I think this is important to focus on, and you referred to it earlier in response to one of my questions, and then I think Senator Cohen may have asked you about it.

You recall back in the 1990 budget agreement, there was an implicit understanding, really, between the fiscal and monetary policy arms of the government, the Congress, the fiscal arm, and the Federal Reserve Board, the monetary arm. And the idea was that Congress and the administration would reduce the budget deficit and we were going to tighten fiscal policy, and we were leaving the management of the economy or keeping the economy afloat to the Federal Reserve.

Well, what we saw emanating from the Fed was a constant problem of too little too late, and we have gone through 3 years now of recession and stagnation, and it is obvious that the Fed policy was not successful and it was not effective.

Now we find, as we are beginning to sputter out of this recession, with a recovery that is much less robust than all post-World War II recoveries, those brave old inflation fighters over at the Fed are once again talking about lowering the monetary targets, once again overly concerned, in my view, about inflation, and we hear talk that we are headed down a path now to zero inflation.

Now, I think it would be helpful to have on the record your views with regard to what is going to happen, if we get into a situation where the new administration follows a path of tight fiscal policy in an effort to try to reduce the deficit, and then we have the Federal Reserve getting into a very tight monetary policy simultaneously to try to get us down to zero inflation.

Mr. PANETTA. It is not going to work, Senator. The problem is, if we are willing to make the tough choices with regards to that long-term deficit reduction plan, it is absolutely essential that the Federal Reserve cooperate then with regards to monetary policy, because you are talking, in fact, then about taking some money out of the economy, you are going to have some impact and you really need the combination of monetary policy plus that investment package to try to keep us in the groove so that we are moving forward in terms of growth. If for any reason the Federal Reserve bails out on us, it is going to be very tough then to try to meet the targets that we have established.

Senator SASSER. Well, they are giving signals already, Mr. Chairman, of bailing out, and some of us are very, very concerned about that, and Senator Sarbanes and I are going to reintroduce our legislation to remove some of the regional Fed presidents who are unelected and unappointed by elected officials from the Open Market Committee, because they are the most belligerent of the inflation fighters on that Open Market Committee, and inflation is not a problem in this economy. As you well know, our problem is creating jobs and growing revenue out of those jobs to help us meet the deficit problems.

I just want to say again how pleased I am with your nomination. I look forward to working with you very, very closely when you are confirmed and take your new post. I think it is an act of extraordinary bravery for you to step forward and accept this nomination.

Mr. PANETTA. Thank you, Senator. I really do look forward to continuing to work with you and getting your guidance, as we try to develop this package.

Senator SASSER. Mr. Chairman, I would like to include in the record, if I may, some statements about the Police Corps.

Chairman GLENN. The statements will be included in the record.

Senator SASSER. Thank you.

[The information referred to follows:]

POLICE CORPS STATEMENT SUBMITTED BY SENATOR SASSER

Chairman Panetta, during the campaign, President-elect Clinton spoke often of his intention to create a Police Corps to put more policemen on the street and reduce the crime faced by our citizens. As you may know, I have been a prime sponsor of this proposal in the Senate.

One of the greatest deterrents to crime is simply police presence—on the streets and in our neighborhoods. Simply put, it increases the risk factor for criminals. It makes it more likely that crimes will be prevented and criminals will be arrested.

As you and I know better than most, spending decisions are going to be extremely difficult in the next few years. But I wonder if you are prepared to give the Senate some assurance that funding will be found in President Clinton's budget for the Police Corps?

Question Follow-Up:

I just want to be clear here that we are talking about numbers which would be significant enough to have a real impact on the streets. I want to be sure that the Clinton Administration remains committed to the Police Corps program.

Question Final Comment:

Well, I look forward to working with the new Administration in introducing and enacting this legislation.

Chairman GLENN. Thank you very much. It has been a long morning here. We said we would be back in at 2 o'clock. I think we can make that all right. Everybody can get a bite of lunch and be back here by 2 o'clock, so we can have an afternoon session and, hopefully, avoid going over until tomorrow, if that is OK with you.

Mr. PANETTA. Fine, sir.

Chairman GLENN. Good. We will recess until 2 o'clock.

[Whereupon, at 12:50 p.m., the committee was in recess, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

[2:10 P.M.]

Chairman GLENN. The hearing will be in order.

Mr. Panetta, we have had some critics of the budget process say that just the process itself is partly to blame for some of our deficit mess, because it leaves us with a rather cumbersome system.

In your answers to pre-hearing questions, you discussed some of your ideas for streamlining the process. I would like to ask specifically, do you see reform of the budget process itself to be a necessary ingredient for long-term deficit reduction, or can the deficit be reduced just by making just better choices within the current process?

Mr. PANETTA. As always, Senator, when you are laying out an economic plan in which you are committing yourself to deficit reduction and you are going to try to back that up with strong enforcement measures, I do think you then have to look at the budget process, because when you talk about budget enforcement, you are essentially talking about what is the budget process.

Every time we have looked at enforcement, using the budget agreement again as an example, we basically revise the budget process at the same time. So I would assume that in terms of developing this plan, particularly the enforcement side of it, we will again review the budget process to see if there is a way to expedite that.

Chairman GLENN. Within the Congress itself—and this is not going to be your prime responsibility, where you are going, but I would be interested in your views on it—we have an authorizing process and an appropriating process. A subcommittee takes up something, the full committee takes it up again if it passes the subcommittee, then it goes over to the floor and is debated on the floor and the same thing comes up again. You run through the appropriations process in the same route, and then we impose the budget process on top of all of that. And while it was meant to give general directions, we wind up with the same—we sometimes have gone through legislative WPA around here enough that it just seems to me the process is so cumbersome, we ought to streamline it in some way. Do you have any comments on that, as to what direction we should go with it?

Mr. PANETTA. Again, I share some of those concerns and I know, particularly when we look at the Senate and some of the barriers that you have to deal with on the Senate side, it always concerns us about whether or not we are going to be able to get policies put in place.

As I said, I think there is a need to review it to see if there are ways to try to expedite it and make it run more smoothly. I want to say at the same time, any time you put teeth into a process, any

time you develop an enforcement process, there are obviously those that don't like it because it detracts from their ability to kind of walk off the path. So for that reason, there will always be some constrictions that will be unpopular, but I think there are ways to try to smooth the process a little bit, to perhaps at least improve the time frame in which we deal with issues.

Chairman GLENN. A different subject, working with the GAO. We were concerned several years ago in this committee about the unfunded liabilities the Federal Government has. GAO did some studies and OMB did some studies. They came out with approximately the same figure, that unfunded potential liabilities of the Federal Government—these are all the guarantee programs, insurance programs, etc.—comes out to something like \$6 trillion.

Now, I am very concerned about this and I think we have to have some way of really watching this—I don't know whether we need a separate watchdog group to particularly watch those unfunded liabilities, or whether this should just be part of your job at OMB, or how we do this, but do you share our concern with these?

What brought this up was the S&L situation, where no one had any concept at all that we were going to get as far indebted through that process as we did. Yet, we have all these other programs sitting out there that total some \$6 trillion. They are not all going to come a cropper at one time, we know that. But it is an enormous—it just seems to me there is a big yellow warning light there, that we could get in deep trouble, unless we really watch these things, just as happened during the S&L and which could happen in banking to some extent, even now. So what are your comments on that?

Mr. PANETTA. I think both GAO, as well as OMB in this instance, have done us a service by identifying the concern about unfunded liabilities. You are right, the problem on the savings and loan was the fact that nobody quite saw it coming and nobody was able to get ahead of that ball, rather than behind it as we did, and the end result of that is that it is going to cost us a lot more, as a consequence of that crisis happening, as opposed to if we had gotten ahead of it.

So what I would like to do and what OMB has set in motion is the mechanism for monitoring these situations, for making sure that we are looking at each of these areas, the GSE's, the credit programs, to determine just how sound they are, and if there is a problem, recommending both administrative and legislative action to try to correct it. So I want to assure you and assure the public that this is an area that we are going to monitor very closely. This is one of those high-risk areas that we think we need to be constantly on top of, so we don't find ourselves having to deal with the S&L-type crisis.

Chairman GLENN. As you go through all this preparation to take your office over there, are you keeping a little card in your pocket or something on legislative proposals that you think are needed to let you do your job better and to make the government more efficient? Do you have any suggestions in that area yet?

Mr. PANETTA. Not really. I would like to get my teeth into the job, and then I will have a better sense of what kind of additional help we need. Obviously, I am very familiar with S. 20 and I am

familiar with some of the legislation that you and Senator Roth have been working on, and I think some of those proposals are excellent and we need to follow up on those. But I think I can give you a better sense, once I get into the job and see the terrain.

Chairman GLENN. Back to the \$6 trillion liability for just a minute. One very specific one that affects, I don't know whether most Americans, but certainly many, many tens of million Americans, is the Pension Benefit Guaranty Corporation. They have been in trouble, and we have more companies in this recessionary time period that have not been able to meet their contributions and, therefore their employees are not as protected as they might otherwise have been.

Do you have some ideas on how we can guarantee better pension portability and reliability? It isn't the whole picture since PBGC was passed has changed and changed rather dramatically? That affects so many individual Americans, and I think we have to—if we are to keep faith with them, we have to do something to make PBGC or some similar organization better able to take care of whatever may happen than they are right now. Do you have some thoughts on that?

Mr. PANETTA. This is the one that I put at the top of the list, frankly, in terms of concern, because it does affect so many people that expect to get their pensions down the road. So many workers have really dedicated themselves to a job with the hope that they would be able to receive these benefits, and I am very concerned that this area, in particular, has some real problems in terms of, again, that unfunded liability.

The answers are not that easy, because they obviously involve whether or not you are going to ask employers for greater contributions, whether there are others that have to make greater contributions, are you going to do something about benefits. And so on that area, frankly, I would like the opportunity to review a whole series of steps as to how we deal with it, before telling you any recommendations at this time.

Chairman GLENN. I have been reading a little bit in that area and one of the things is that you would require companies to pay people an amount they, in turn, could invest themselves in a mutual fund or something like that, that is run maybe by the company or by a consortium of companies, and then that is portable, obviously. If a person leaves and goes some place else, he would have his or her interest in that particular fund to go along with them, and over a period of time, that could be quite a large chunk of money for an individual who started contributing at a young age.

Mr. PANETTA. We had, interestingly enough, in my district, there were some agricultural areas that were looking at the possibility of trying to make these benefits portable so that they could actually provide a full payment to an employee on the basis that that would then be invested in some kind of long-term program to assist them in the future. We have looked at that.

It requires all kinds of waivers, as you know, in the process, but I think that is the kind of approach. We need to be very imaginative here, because we are going to have to develop some other approaches. The system cannot go on the way it is now, because I don't think its funding elements are sufficient to protect it.

Chairman GLENN. I agree with that.

Senator Roth.

Senator ROTH. Leon, I find it very troublesome, as I mentioned this morning, to have the Comptroller General tell us that there are practically no programs, no agencies, no departments that he can say are well run, and it seems to me that makes the "M" in OMB very, very important. And I was delighted to hear you say this morning that you do agree the "M" is of critical importance.

In the last two Congresses, I have been pushing as one reform the idea of bringing about program performance, goal setting, measurement and reporting, and ultimately performance-based budgeting. Do you agree with that approach?

Mr. PANETTA. I do believe that you have got to establish some performance-based objectives. You have got to be able to lay out some goals, you have got to be able to lay out some objectives, you have got to have a system of being able to determine whether or not that agency is doing the job.

Now, it is easier said than done, because you want to do it in a way that then doesn't overburden that agency as it tries to accomplish its goals, and we have had some problems along those lines.

What I would like to do, and I think your legislation helps provide for that, is to try to establish some pilot efforts on performance-based budgeting, and then, if it does work, to broaden that so that we can hopefully encompass it in the budget proposals we submit. I think as part of the President's budget, we ought to include some of those performance-based objectives.

Senator ROTH. Well, as you say, my legislation goes provide for demonstration projects, and I think that is an important first.

During the hearings on the HUD scandal, which was, of course, held before another committee, Richard Wegman testified on behalf of the National Academy of Public Administration, where he said preventing more HUD's ultimately is a continuous process of improving program goals and testing agency performance against them.

Two years ago, the House Ways and Means Committee, James McIntyre, who, of course, was your predecessor for the Carter administrator, testified that, to facilitate the oversight process, standards to measure each program should be included in its authorization or reauthorization. The standards should be part of the legislation itself, not conference report language. The conference report on all reauthorization should explain how the program's performance compares to the goals set.

My question is do you agree that Congress itself should be required to establish program performance goals when it creates or spends money on a program?

Mr. PANETTA. I would find that very helpful, actually, if Congress itself could assert more specific objectives and goals as it establishes programs, because then you would have better guidance in terms of developing that. I don't think it is absolutely essential, but, as I said, I think it would be very helpful. I also think it would be good for Congress to look at the performance gauge they want to assert in a program. In other words, if you want to develop a program to provide, for example, for education benefits, then what

kind of goals do you want to achieve over what period of time, and lay some of those out. I think that would be very helpful.

Senator ROTH. I couldn't agree more. I think it is very important that Congress does that, because it helps the oversight, it helps you determine whether the program is working, whether they should have more money or less or whatever, so it seems to me basic to the whole program.

Now, both you and I have introduced commissions to restructure or reform government as a whole. It seems to me that this legislation is of critical importance. I had some questions with the Comptroller General on it, and at the beginning he said, he thought it could be done internally by the Executive Branch, but he agreed at the end that probably it was necessary to have some commission focused just on that problem.

We all know that a new President comes in with the best of intentions, but you have so many other matters before you. I mean, internationally, this new President is going to have his plate full on just that alone. But don't you agree that we ought to move ahead with some kind of—and I think it should be a bipartisan—commission to take a look at bringing government into the 21st Century, to use modern technology, for example. What are your thoughts on a more comprehensive reinventing government commission?

Mr. PANETTA. I think you have to do it. I think as I have introduced on the House side and you have introduced on the Senate side, I think you do need to have a commission do it, because, frankly, the problem is it has to be done in a comprehensive fashion. And if you just try to nit-pick away at this, you will never get anywhere. You will run into jurisdictional problems in the Congress on both sides. You know, each side will say, wait a minute, don't touch this area, don't touch that area, and so it has to be done in a comprehensive fashion, and, frankly, a commission is the only way to get at that.

I do think it is essential that we do that. We have not moved into the 21st Century yet in terms of our structure of government. We are still operating over departments and agencies that have been established over the last 200 years, some of which, frankly, have lost their effectiveness. And so the question is how do you reorganize our overall government for the future. Instead of having trade, for example, spread out among a number of departments, should we not look at perhaps establishing a centerpiece with regards to trade.

Natural resources, we have departments all over the board that focus on different elements of natural resources. As we try to deal with environmental issues and natural resources, why shouldn't we have a focal point for policy development in those areas?

I realize all of this is very controversial. You know, I have suggested taking 13 departments and bringing them down to 8 and have caught enough hell on that proposal alone, so I know that they are controversial. But I think it is absolutely essential to approach this whole issue with some new thinking. We have got to do a better job in coordinating policies.

For example, when I want to deal with an issue in my district that just involves the issue of establishing an expanded reservoir,

because we were in a drought and we wanted to expand a reservoir there, I have got to put 25 or 30 agencies in a room in order to try to resolve that issue, and it becomes an incredible barrier to trying to deal with policy implementation. So we need to do a better job of coordination of policies in this area, there is no question.

Senator ROTH. I couldn't agree more strongly with you. I think we ought have as a goal what I like to call, not original with me, a one-stop shopping idea. It is impossible today for the small country or city or even your State to follow a labyrinth of agencies and departments and rules and regulations. Somehow we have to simplify it, and that is a full-time job that you have to have someone working at, so I am delighted to hear your answer.

Thank you, Mr. Chairman.

Chairman GLENN. Senator Cohen.

Oh, I'm sorry, I promised Senator Cochran, when we came back, he would be first up.

Senator COCHRAN. Thank you, Mr. Chairman.

I don't have any other questions to ask of the witness. I just want to wrap up my comments by saying that I really think the President-elect has chosen well in selecting Leon Panetta to be head of the Office of Management and Budget.

I have had the pleasure of working with him for a long time, in the House and from the Senate. Ever since he came to Washington, I have a very high regard for Leon Panetta as an individual and I respect him in every way possible.

I regret that he switched parties. That is my real quarrel with him. We need him now.

Chairman GLENN. He saw the light.

Senator ROTH. But he can always change again. [Laughter.]

Senator COCHRAN. I also think that he has a great opportunity to be an influence for positive change in this administration. It occurs to me that we all need to reexamine the budget process much more carefully, with a view toward making it more of a legitimate process of straightforward requests and responses for appropriations of funds and allocations of government resources and deriving revenues.

I would like to see more truth in budgeting. I know Leon Panetta would like to see that, too, and I would urge you to use your best efforts to help achieve some reforms that would lead to that.

In the comments that I made earlier today, one or two people suggested to me that I was being a little harsh on Republican administrations in my comments about the fact that the administration doesn't always play fair with Congress in the budget submissions. Frankly, I feel just as strongly about the failure of the Congress to play fair with the administrations, and Congress has been dominated by the Democratic Party pretty much for the entire time I have been here, except for the 6 years we controlled the Senate.

I remember the Carter administration, and I remember that things were just the same then as they were with the Reagan and Bush administrations and the Nixon and Ford administrations. There is always the temptation for the Executive Branch to make the Congress look bad or fiscally irresponsible, and vice versa, and that has been the tendency. The budget process has been used and abused for that purpose.

In my judgment, a lot of the budget documents that we see, including the budget resolutions passed by Congress and the amendments offered on the floor of the House and Senate to the budget resolutions are nothing more than political gamesmanship, one-upsmanship, games and gimmicks, distortions, misrepresentations, misleading the American people ultimately about the real priorities, the intentions, the possibilities, the realities of the budget situation, and I hope that changes. I hope the Clinton administration has the courage to change, and I hope that Congress has the courage to change the way it does business with respect to the budget process.

So I wish you good luck. I know you favor some other things that I favor, like the 2-year budget cycle. I hope you will have the courage to submit a 2-year budget. Maybe you can convince the Clinton administration that that ought to be done. There are some very positive ways that I know you can be an influence for change, and I expect you to be able to be an instrument of constructive change in this process.

I wish you well and commend you for agreeing to take this job, and I hope you have a great deal of satisfaction and pleasure during your service as Director of OMB.

Mr. PANETTA. Thank you very much, Senator, for your remarks. This is a huge challenge.

You are right, it was not a partisan weakness, it has very much been a bipartisan weakness with regards to dealing with the numbers. It didn't just begin in the last two administrations, it began before that.

The problem is that, as you confront the deteriorating numbers we have seen on the deficit, rather than confront those choices, you look for all of the gimmicks and you look for ways to try to avoid that, and we have seen all of them. We have seen all of them over the last few years, and I think the American people know that those games have been played on all sides and they are tired of them.

What I said to the President-elect and what he asked of me is, he said you have got to shoot straight with the Congress and with the American people on these numbers. We may not like the choices. We can fight over the choices, but you have got to shoot straight on the numbers, where are we at, what does it look like, what do we have to do, and I hope to do that as we present our budget.

Senator COCHRAN. Thank you, and good luck to you.

Chairman GLENN. Senator Cohen.

Senator COHEN. Thank you, Mr. Chairman.

Let me just follow up on Senator Cochran's comments. You shoot straight with the Congress and I think you will find members on both sides of the aisle willing to play fair with you and with the new administration. I think that is what you bring to the office, a reputation for shooting straight.

I would like to just follow up again on Senator Cochran's comments about putting everything in perspective during the course of the morning proceedings. The Chairman of the Senate Budget Committee asked how did we get into this mess and went through a litany of issues which he felt contributed to the large deficit.

I would like to see the record straight, also. When President Reagan came into office, you may recall the economy was dead in the water at that time. We had at least 13 percent inflation rates, we had 22 percent interest rates, we had a hollow army, we had a hemorrhaging navy, we had American POW's being paraded through the streets of Teheran and a sense of "malaise" that was infecting most of the political body in this country. President Reagan did come forward with some significant tax cuts to stimulate the economy. Unfortunately, corresponding budget cuts to match those tax cuts were not enacted. We increased defense spending as was critical at the time, but there was very little success in reducing other government spending. I think we have to put what happened in the correct historical perspective.

I want to talk for just a moment about the tax issue because, again, candor and courage are two words that we associate with you and your record in the House of Representatives. We hope that will also be associated with the new Clinton administration.

As we are talking about narrowing the deficit, we look at the proposal of taxing the wealthy, I don't know that anyone has fully defined what that means. Who are the wealthy, in your judgment? I will come back to that in a moment. But assuming that we tax the upper 2 percent of the American population, from the numbers that I have seen, that will produce somewhere in the neighborhood of \$15 to \$20 billion.

If we have a surtax on millionaires, that is another \$2 billion. If we have increased taxes on foreign corporations, as I think Senator Dorgan has indicated, that might produce as much as \$10 billion. You also have to factor in whether or not foreign corporations who are now investing in the United States might seek to move their money elsewhere where they have a lower tax rate and perhaps even higher interest rates, such as in Germany.

So then we start getting down to, if we only have \$32 billion that we can readily put our hands on, where is the deficit reduction going to come from? What other types of taxes, for example? A gas tax? That may be ruled out because it is so controversial. There are people in rural areas who would not readily agree to that. The Senator majority leader has indicated that the time is not ripe for that, and he is probably correct.

Charitable contributions? We have found that eliminating or reducing the deduction for charitable contributions may only increase the burden on those who are seeking to send their kids to college in the way of higher tuition costs.

Deductions for local income taxes? If you want to reduce the deduction available currently, you are going to impose a greater burden on States like California and New York and a few of the others which have a very high local tax burden.

I guess it comes down to politicians. We politicians—and I use that in the positive sense of the word—are always talking about taxing the rich, but the money, if you are going to raise money, is going to be from those in the middle. So do you intend to recommend to Bill Clinton that he not have a middle-class tax cut, but a middle-class tax increase? If we are going to deal straight with the American people we are not talking about the rich. We are talking about where the bulk of the money is—in the middle class.

Is he prepared to do that, and are you prepared to recommend that he do that?

Mr. PANETTA. Senator, I think the way you approach this and the way we have approached it when we have dealt with this in budget summits is to first go after the spending savings and try to determine what, in fact, can you achieve in terms of spending savings, because everybody says, you now, if we are going to raise revenues—nobody likes to raise revenues, let's face it. There isn't anybody who is a big advocate of taxing anybody.

Senator COHEN. But Senator Sasser said this morning that it is out of the ball park in terms of reality as far as putting freezes on domestic programs.

Mr. PANETTA. I think he is right.

Senator COHEN. OK. So if we are not going to freeze spending, where are the deficit reductions going to come from?

Mr. PANETTA. As I said, I think the first thing you do is you have to analyze what you can achieve in terms of spending savings, what you can get out of defense and non-defense including entitlements, and also you then have to look at your investment package, how big is that going to be in terms of balancing all of this, and then, obviously, that takes you to the revenues.

You have mentioned the key revenue raisers, obviously, would involve increasing the upper rate on the wealthy, and a surtax. There are also proposals that were contained in H.R. 11 that can provide additional revenue increases, and there are some other areas that deal with basically just improving the fairness within the Tax Code that could also be considered.

Ultimately, it has got to be a balanced package. Whether it takes you beyond that core of revenue raisers really does depend on these other decisions. For example, if you have got a big health care piece in terms of savings, but you have decided that you are going to use those health care savings for a health reform program, then you have got a hole that has to be filled.

If you decide on defense, that instead of taking defense down according to a heavier line Secretary-Designee Aspin has suggested, three or four paths that you could follow to try to get the defense budget down, and let's assume that you pick one that is lighter in terms of defense savings, that could create another hole.

If you can't get the non-defense savings, you can't impose any kind of freeze across the board on the non-initiative programs, you have got another hole that has got to be filled.

So it is in that context that you decide do you have to move to other tax resources or the revenue resources in order to fill the gap. I think the bottom line is, again, you have got to set a deficit reduction target and stick to it, and it is going to involve some of the choices that you have mentioned, you know, it has got to be part of the context.

Let me also say if you are going to have a sharing of sacrifice here, and I think that is absolutely essential, you can't ask people on entitlement programs, you can't ask people who are going to get hit by non-defense cuts to bear their share of the burden, and then say to the wealthy you don't have to pay your bill here at all. I mean it has got to be a fair sharing of that burden.

Senator COHEN. Let me ask you one other question in this round. I detected during the course of the morning that there were references to the deficit in terms of it being a percentage of gross national product, and so getting away from the absolute number, whether it is \$290 or \$310 billion. Now we talk about it in terms of it being a percentage of the gross national product.

We went through this exercise, as I recall, back in the mid-1980's, when Don Regan was Secretary of the Treasury. I recall him also making the argument that deficits really aren't that important as a percentage of gross national product. He ran into conflict with Martin Feldstein at that point, who said, "wait a minute, deficits do matter." As I recall, George Will wrote a column that indicated that Martin Feldstein had been infected with a rare Washington disease called "empiricism," he allowed facts to influence his thinking. Of course, he was a professor who is now back at Harvard, and Don Regan went on to become the chief of staff of the Reagan administration.

I detect the same sort of drift now. We are now starting to talk about the deficit as being only a percentage of the GNP and that is really not as important as if you start talking about it being \$310 billion.

Mr. PANETTA. Well, don't interpret too much into that statement. What I am basically saying is, obviously you do have to see where the debt to GDP ratio is. I mean we are 50 percent of our gross national product now, is in debt. We have got to turn that around, and one of the arguments that economists will make is can you in the very least begin to stabilize that and then bring that path down.

I am not saying we ought to just be satisfied with where the percentage is. I mean some usually say, well, Japan has a percent of GDP ratio of this much, if we could be in that vicinity, and what have you. I am not satisfied with any of that. But as a vehicle to kind of say let's stabilize it and then bring it down, I think that is what I am basically discussing at this point.

Senator COHEN. Thank you, Mr. Chairman.

Chairman GLENN. Thank you.

Senator Dorgan.

Senator DORGAN. Thank you, Mr. Chairman.

Congressman Panetta, I asked you this morning about a stimulus package. Personally, I think there is some reason to feel that a temporary investment tax credit that is targeted could be helpful to stimulate the economy. But there is an irony that is occurring at the moment; the talk about an investment tax credit and the potential of having a tax credit in the future is delaying purchase decisions by people who are waiting at the moment.

Congressman Rostenkowski and Senator Bentsen, I believe in December, put out a statement suggesting that if something is done in the future it should be retroactive to December 4th, the date they made the statement. How do you feel about that? Are you generally supportive of that position, and is the President-elect generally supportive of that?

Mr. PANETTA. Yes, I believe there is support that it ought to be retroactive and that, clearly, a part of this package will include some form of the investment tax credit.

You mentioned it as a part of a stimulus package. I just want to at least make this part of it clear: I think any tax element ought to be contained in the reconciliation process, because my experience is that if you just ask Ways and Means and Finance to move a temporary investment tax credit, they will add other features to it, and pretty soon the train has left the station in terms of the other elements that have to be part of the deficit reduction approach. So I would like it included as one package, and I think the President-elect supports that approach.

But he is supportive of an investment tax credit and I think they are supportive of insuring that whatever provision is enacted, that it be retroactive.

Senator DORGAN. Your description of what is going to happen to the economy and, therefore, the revenues that it will produce for your budget purposes relates in large measure to the business climate in this country. We want to produce jobs, but we want to produce them here in this country, and we want all that economic activity then to represent a robust growing economy that produces revenues to balance the budget.

In terms of the business climate and jobs in this country, I want to come back to the point I made earlier this morning about foreign corporations doing business in this country and the amount of taxes they pay. I didn't give you a chance to answer sufficiently, because you have gone on record on this with respect to what the Internal Revenue Service says.

The States have confronted this issue, Mr. Panetta, when they had to try to figure out how apportion income among States with respect to multinational corporations doing business in every State. Instead of simply throwing in more auditors to work a system that doesn't work, the States created a new system, an apportionment system. That is what we have to do with respect to the tax obligation of foreign corporations doing business in this country.

With respect to the business climate, the IRS disclosed that the American auto industry paid an average tax in a recent period of years of about 22 percent. Yet, many foreign auto companies effectively paid nothing. Electronics firms in the U.S. paid an average 28 percent tax burden; 40 percent of the foreign-based electronics firms paid zero on the business they did in this country.

The point is that that creates a detrimental business climate for those who are located here and create the jobs here.

Coming back to the same point, I urge you to be as aggressive as you can in this area, because I believe this is an area where the President-elect is right, and most of the institutional muscle-bound thinkers in town are wrong. They cling to a system that won't and can't work, in trying to figure out how to get the money from foreign corporations that are doing business in this country. You cannot and will not ever get it with arms-length transactions and audits to try to uncover arms-length transactions.

The only way you are going to get it is to change to a formulary approach, and I urge you—we are talking about \$40 billion, at least, it seems to me, in 4 years—I urge you to take a new look at that and a very aggressive look at that.

Mr. PANETTA. As I indicated and as you now, the President-elect basically has said this is a priority in the package that he pro-

posed, and people first, and obviously that area will be looked at very closely.

I should point out that the Secretary-Designate of the Treasury, Lloyd Bentsen, is going to have a lot to say about obviously whatever revenue package we put together, and I think he in turn is going to look very closely at this proposal, as well.

Senator DORGAN. I would like to urge you to take a look at another area of tax policy. We passed in the House of Representatives a change in deferral laws. Someone in the Chairman's district in Ohio who has a manufacturing plant could decide to close the Ohio manufacturing plant and just ship those jobs to another country and then manufacture the same product and sell them back into Ohio.

We now have a situation where we would give that company a benefit, an advantage, a subsidy for doing that called deferral. We say to that company: any money you earn in that plant, you don't have to pay taxes on it, as long as you don't send it back. In fact, any taxes you pay to the local folks down there, wherever you're locating, you can take credit for that, not deduct it like you do in Ohio for State tax paid. We will give you credit dollar-for-dollar for the foreign country you go to.

In 1987, we passed a change in deferral to say that we don't want to reward companies for moving their plants overseas. At the very least, it ought to be a decision that is neutral. I hope you will also focus on that, because we ought to change that tax law, it seems to me, with respect to deferral. That, too, will create a mountain of controversy in this town, but it is something that ought to be done.

Mr. PANETTA. As I said, when it comes to this package, everything has got to be on the table and everything has got to be looked at, and that is one of them.

Senator DORGAN. One other point. I am feeling good that there is someone who has a good working knowledge of agriculture and is going to be in a key position in the Cabinet. You served on the House Agriculture Committee, and we have had the opportunity to work together in the early 1980's on agriculture, I think it is an advantage for those of us who come from rural areas of the country to have someone in the Cabinet in a position other than Agriculture, who knows and values the interests of working farms in this country, especially family farmers.

I just would say this: We are told by economists that what we produce is a liability, we produce too much, so it is a major liability and that is a problem for family farmers. A 100 years from now, people are going to scratch their heads wondering how we became convinced that what most of the world needs was considered a liability in this country, 600 million people go to bed every night with an ache in their belly, because they don't have enough to eat, and family farmers in your district in California are told prices aren't good enough because what they produce really isn't of great value. They are told that they produce too much of it, besides, so the market is going to discount it.

So I feel pretty good today that we have someone who represented an agricultural district, who knows a great deal about agricultural policy, and who I hope will weigh in on policy issues in

a manner that is helpful to the network of family farms in this country that I think we must keep

Mr. PANETTA. I am glad you pointed that out, because I did it with a great deal of pride. I represented a district that had a billion-dollar agricultural industry. I think agriculture remains one of our important industries in this country. It is important to family farmers. It is important to our standard of living. It is important to the rest of the world, and I think we have got to continue to focus on that, as we try to implement policy.

Obviously, as always, you know, there are areas of savings here, but in this instance, it has got to be tied to overall trade policy. We are now in negotiations, and it seems to me whatever we try to assert in terms of our allies, we have got to see what our allies are willing to put on the table before we start taking any strong action against those programs that serve farmers in this country.

Senator DORGAN. And to the extent that budget cuts are made, we ought to consider, as the House has considered on various occasions, targeting, so that whatever assistance we are going to provide in the area of agriculture be targeted to family-size farm units. There is not a great need to subsidize agri-factories in our country. They do just fine. But family farmers who are victims of cyclical international price swings that they can't control or predict are washed out easily and quickly, when you have price depressions that come and stay.

So I would hope we would consider, when we look at budgets with respect to agriculture, that we respond to the issue of targeting.

Mr. PANETTA. I think we can do better targeting.

Senator DORGAN. Thank you very much.

Chairman GLENN. Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman.

Congressman Panetta, as you and I have discussed the other day, these hearings are not only an opportunity for us to question you, but in some cases an opportunity for us to signal to you those areas that we have particular concern over and that we hope that you will keep in mind when you assume this position.

One that I want to mention very briefly is that I have worked with several of my colleagues here on something we ended up calling an economic leadership strategy, which is an attempt really to put the government behind business in the creation of high-tech manufacturing jobs, to create a uniquely American model that would do some of the same things that the Asian and European governments have done for their businesses.

There was a lot of support for this during the last session, ultimately joining with Senator Pryor's task force on defense diversification and appropriated \$1.6 billion to fund some of these programs. I just wanted to ask you, for the record, whether you are generally familiar with this approach and whether you would give it a high priority, once in office.

Mr. PANETTA. I am generally familiar with the legislation and the goals that you tried to establish through that legislation. I think they are very meritorious. I guess the question is, as you try to target some high-tech areas or areas that you think need to have

those additional incentives, that we don't overlook other areas. I mean we have to do it in a sensitive way.

But I think the general thrust of what you are trying to do is right, because I think, again, it is a question of whether we are on the leading edge of the next century, or whether we are just always going to be behind. And if you are going to try to get to the leading edge, you have got to try to provide the incentives that get us there, and I think your proposal could give us that opportunity.

Senator LIEBERMAN. That is exactly the goal of the program, to make sure that the products of our laboratories, which are still number one in the world, that is the basic research is commercialized here, instead of abroad, and, therefore, that the jobs are created here.

To move on to another subject, and that is the defense budget, which I know you have answered questions about. Of course, we all hope and believe that we will be able to achieve reductions in defense spending post-Cold War. But as we look around the world and see the former Soviet Union still pretty heavily armed with a relatively unstable government, trouble breaking out in some ways as a result of the collapse of the Soviet Union, and Yugoslavia, the U.S. and the world community moving into Somalia, concern about Haiti, and so on.

It seems to me that it is important to make sure that we don't cut too far and too deep, and that we particularly keep in mind concerns about preserving the defense industrial base, so that we will be able to protect not only our immediate security, but have the ability to produce future generations of weapons, if, in fact, more are called for later on.

So my question is really what are the limits on defense cuts at this point, in general terms, and do you agree that we have to be concerned about maintaining our defense industrial base?

Mr. PANETTA. Any number we lock into with regards to defense savings has to be justified, based on a very careful analysis of what kind of force structure we need in the future, what kind of missions we need to perform, what kind of security requirements are needed, both abroad and at home. It has to be tied to a policy, in other words. I can't just throw a number out. Nobody should just throw a number out. These are too important in terms of the decisions that have to be made in this area.

In preparing budget resolutions, I basically asked the Chairman of the House Armed Services Committee to go through that kind of analysis, and he did and he developed several scenarios and it was based on that, that we ultimately came out with the number that we put into the budget resolution, and, incidentally, the number that was ultimately enacted by the Congress.

I think it is that kind of analysis we have to go through, as we determine the path we need to follow in these next 4 years. I think we can do better than the Bush budget in terms of savings, but I also think it has got to be based on making very clear to the American public that we are not in any way undercutting our national security, that we are strengthening it, that we are improving our modernization, that we are improving our training in terms of the quality of people that are available in our armed forces. But where we can't find savings are in those areas where, by finding those

savings, we are going to be improving, not undercutting, our defense posture.

So there is a lot of room there, and I know my statement is general, but I think, as I said, it has to be tied to missions that we perform. What is your defense foundation? What do you need to have your defense foundation, and then what missions are we going to be asked to perform? Is it a Persian Gulf mission in the future? Is it a mission of humanitarian aid, such a what we did in Somalia? Is it a mission that relates to our ability to pre-position forces in other parts of the world? Do we also want to take into consideration the possibility of fighting a Korean-type conflict or an air conflict at the same time? Do we want to be able to rotate forces, as we did in the Persian Gulf?

Those are all the kinds of questions that need to be asked, before we decide what path to take.

Senator LIEBERMAN. I thank you very much for that answer. I didn't really expect anything detailed, so the generality is not a problem to me, and I think you have really hit just the right point here, which is that, unfortunately, there are those who go at this process from exactly the opposite direction from which you did, which is to say let's cut \$100 billion out of the budget, regardless of what the estimate of national security needs or missions may be, and I am reassured. I am not surprised, because I know your record on this, but reassured at the statement that you have just made.

A brief question: We have talked earlier today, I don't know if anybody has asked you this, about the concern about revenue estimates and economic and technical assumptions by OMB, but also, frankly, by Congress, which others have of our numbers as well as we have of others' numbers.

While a Member of the House, you proposed a Federal Reserve-type board of estimates, which I gather would try in some more independent way to establish at least some of the basic assumptions common to all budgets. Do you think that is still a good idea?

Mr. PANETTA. In response to questions by both Senator Cohen, as well as Senator Cochran, I want to make very clear that I think it is extremely important that we try to avoid the game-playing on baseline assumptions between the Executive Branch and the Legislative Branch that we have seen over the last few years.

We have made some improvement on that, I must say. OMB and CBO have worked much more closely together to try to arrive at some good projections, closer projections about costs in various areas. There are still some differences and they still have to be worked out.

So my goal would be to try to ensure as much as possible that we try to minimize the amount of conflicts there and to try to establish as common a baseline as we can. I had suggested as part of the legislation that I proposed the idea of establishing a board that would get the assumptions from OMB and CBO and pick the one that they believe represents the better approach as to where the economy is going, just for that very reason, so we would have a common baseline.

I would like the opportunity to work with CBO, as well as with OMB, to see if we can't resolve that problem, without having to proceed to a board.

Senator LIEBERMAN. If you can, I think your idea is a good one and I commend you on that.

Thank you, Mr. Chairman.

Chairman GLENN. Thank you.

Senator Domenici.

Senator DOMENICI. Thank you very much, Mr. Chairman.

Chairman Panetta, let me ask a question with reference to something that might first appear to be somewhat technical, but I think it sends some very big signals and perhaps indicates something about where we are going with deficit reduction.

You are aware that one day after the President is inaugurated on the 21st of January, he is supposed to notify Congress as to whether he intends to adjust the MDA, the maximum deficit allowed, for 1994 and 1995. That was part of a compromise in the 1990 budget agreement. We required by law that 1991, 1992 and 1993 be set, but we gave the President the discretion to adjust 1994 and 1995. So the objective of returning to the concept of fixed deficit targets is at issue here.

Last week's estimates suggest that holding the deficit to these targets and not adjusting for economic and technical changes would require two sequesters, \$24 billion in 1994 and \$44 billion in 1995. My own feeling is not terribly relevant, because it is up to the President and you people who advise him, but it seems to me that these are very good leverage items to hold collectively between the Executive Branch and the Congress, and I wonder whether you have any idea whether the President is going to let January 21 go by, or is he going to adjust them?

Mr. PANETTA. I was asked that question, I believe, by Senator Roth, Senator Domenici, and we are presenting again the options to the President and he has not made a decision with regards to that. But I can assure that, whatever that decision is, it is going to be part and parcel of the decision on that broader economic or deficit reduction plan, because you absolutely still have to get those deficit targets met.

Senator DOMENICI. So you don't know yet, but it is under consideration?

Mr. PANETTA. Yes, sir.

Senator DOMENICI. Mr. Chairman, I apologize for repeating the question. I had no intention of repeating it, if it had been asked.

Now, Chairman Panetta, one more kind of process question and then I would like to ask you a question about how the deficits are going to get reduced, in your opinion. The debt limit is going to expire at a time very soon, and it has always been a very, very contentious issue. It has been the opportunity to get things done on the one hand, and for others it has been the opportunity to try to stand firm and not get a Christmas tree proposal. Do you have any idea now when that debt limit will expire, such that we will have a time certain to increase it?

Mr. PANETTA. As you know, Senator, Treasury ultimately presents us with where that point will be. Our best estimate right now is that sometime in March is when we may have to confront that

issue. I would hope that at that point we will have an economic plan presented to the country and we will have a process beginning within the Congress that will make clear to everyone what our approach is going to be in terms of deficit reduction, as well as investments, and that we won't face the problems that we have faced in the past.

But you are right, it has become a source of all kinds of mischief. My hope is that people will be convinced, as we did in the budget agreement, that by virtue of the steps we are taking for deficit reduction, we ought to proceed to take the steps to deal with the debt ceiling, so that we don't face any kind of serious economic problems in this country by virtue of not doing that.

Senator DOMENICI. Maybe there will be a requirement up here that you go through a couple of interim steps to see if the credibility is there.

Mr. PANETTA. I think that is probably what we will do.

Senator DOMENICI. I think if you want to establish some credibility in your so-called economic and deficit plan, there will be many of us joining in saying why have it every 3, 4, or 5 months, why not use the numbers and put it in for 3 or 4 years.

Mr. PANETTA. I suspect that there will probably be a short-term extension followed hopefully by something in reconciliation to deal with the longer-term problem.

Senator DOMENICI. Now, Chairman Panetta, we had a Republican President for 12 years. For 6 of those years, we had a Republican Senate and a Democratic House, and the rest of the time we had a Democratic House and a Democratic Senate. Republicans in the Senate, to the dismay of some, tried to dramatically reduce the deficit on their own and did it on their own for one body. It didn't last 3 weeks. Between the then-President and the House, it was gone.

I have come to the unequivocal conclusion that you are not going to get the kind of deficit reduction that is required to really get the deficit under control, if you expect one party to do it, regardless of the status of the presidency versus the Congress.

I don't believe the current Democratic control of the White House and both Houses of Congress can achieve the kind of deficit reduction package that people like you have been talking about for a long time, and that includes entitlements, major reform and policy changes in them to reduce their costs in a reasonable way.

Do you generally agree that it is going to require both parties to get this done?

Mr. PANETTA. I don't see how you can take on these kinds of choices, without having both parties trying to hold hands in dealing with these issues. If it becomes just a partisan game of one party blaming the other for whatever tough steps are taken, we are going to repeat the experience that you just explained. I regret that.

Very frankly, you were among those who made some very tough choices at that time and got the hell kicked out of you. It can't work that way. We have got to be able to make these choices together, and the country has to see that we are willing to set aside these partisan differences in order to make those choices. So that is kind of the starting point for me.

Senator DOMENICI. I once coined a word that said there has to be a "simultaneity" test for the really tough entitlements. Democrats and Republicans and President and leadership role have to say "aye" at the same instant, so there is not even a 30-minute lapse, because then there is room for to blame.

But let me conclude this round of questions—

Mr. PANETTA. If I can just follow up on that, Senator Domenici, that is a two-way street. As you know, it is a two-way street. If we come forward and present a tough plan to the country that does involve some of those choices, then it is also important that respected members on the minority side are willing to say he has made the tough choices and is willing to try to work with us.

But if the first reaction is to kick the hell out of us, you know, because we were willing to make those choices, that makes it very difficult then to try to build that kind of bipartisan relationship. So I hope it is a two-way street and that we can both work on this effort to try to develop a coordinated approach to this tough issue.

Senator DOMENICI. Well, Chairman Panetta, if the President agrees with your position that everything is on the table—and I gathered you said literally that every entitlement program is on the table, then my only admonition is if you want Republican support, and you should have it if it is done in a way that is best for this country, fair and equitable, I think you have to get Republicans involved in helping with the deficit reduction package.

We aren't necessarily entitled to be part of the ideological, philosophical or political agenda of this President, but Mr. Chairman, don't drop us a deficit reduction package with these things in it. If you want to be bold enough to put all the entitlements in unilaterally and not talk to any of us, I admonish against it, because you are inviting a disaster. I really believe we ought to be in it together from the beginning, but we can be left out, in which event I think you have got to bear it all alone, and my guess is you won't get it done.

My time has expired.

Chairman GLENN. Yes. Thank you.

Senator DOMENICI. Could I put a statement in the record that says how much revenues are going to go up without any changes in the income tax?

Chairman GLENN. Yes. Without objection, it will be included in the record.

[Document follows:]

REVENUE GROWTH

Question: This morning it was stated repeatedly that we have "lost" hundreds of billions in revenues.

Even with OMB's most recent projections, year-over-year, are revenues projected to decline or increase?

Background: A Senate Budget Committee majority staff analysis of the Bush January budget statement claims a \$214 billion "revenue loss" over the period FY 1993–1997. This is due to a change in the estimates of the revenue baseline and not any loss. Even with this re-estimate, and with no increases in taxes, revenues are still projected to increase, year-over-year, under OMB's projections.

OMB January 1993 Projections
(\$ in billions)

Fiscal Year:	1993	1994	1995	1996	1997	1998	Total 93-98
Revenues	1147.6	1230.3	1305.6	1378.5	1439.7	1523.4	8025.1
Increase over previous year	+56	+82.7	+75.3	+72.9	+61.2	+83.7	+431.8

Mr. PANETTA. If I could just say to Senator Domenici, I don't think we can get it done unless we have that kind of cooperative effort. You are right; it may be a little easier to do on the House side, but on the Senate side I think we are going to need that co-operation.

Chairman GLENN. Mr. Panetta, there was a lead editorial in the *New York Times* last Friday—I don't doubt that you saw that.

Mr. PANETTA. Yes.

Chairman GLENN. "Breaking Bill Clinton's Promise" was the title of it. It involved a nominee for a Cabinet post who was only willing to say, apparently, that he would recuse himself only for 1 year from areas that his former law firm might be involved with while he remained in office.

I'd like your views on this because I disagree strongly with that approach to it. You are not in that position yourself, because you have been in government for a long time, and while you were with a law firm, of course, that has been many years ago, so I don't think you find yourself in that position. But I am concerned about the many people that you will be having come in to OMB and what your rules are going to be for them; will you expect them to recuse themselves from any of their prior clients' interest for just 1 year, or for the duration of their employment in your office?

Mr. PANETTA. I would ask my employees to recuse themselves for the duration of their employment. I think you can't limit the conflict issue. It has got to be for the duration of their employment, and that is what I would ask of my employees.

Chairman GLENN. Good. I think that is excellent.

I'd like to talk some more about the management role—Senator Roth mentioned that a few moments ago—and improving government management. This Committee has been on a crusade for a number of years to put the "M" back in OMB. I think there has been some progress made in that area, but certainly a great deal more needs to be done, and I think people at OMB in the past have quite often gotten so bound up in the budget process itself, which obviously is time-consuming and monumental, it has a time deadline set for it, you are always up against deadlines; so it is understandable why people focus the greater part of their attention on the budget and very seldom get around to the "M" in OMB.

Now, the Committee has felt very strongly about this, and we have taken the lead in passing IG legislation, expanding that, and also the Chief Financial Officer Act, which—to put it in proper perspective, if you have a "mom and pop" business, and mom says, "Here is some waste, and we're going to go bankrupt if we don't correct this," and mom and dad get together and decide, OK, we've got to correct this. When you get to be a bigger business, that "mom and pop" operation is performed by an auditor, a comptroller

or, if you are really a big business, a CFO, or a chief financial officer, who, while he or she could certainly look at the criminal activity, they are more charged with looking at the efficiencies of government, with saying here is a program that works, here is one that doesn't, we wasted money on this. They can report then, and the way we passed that legislation, the reporting has to go not only uphill through their boss and the administration, but also be reported to Capitol Hill, as I think you are aware.

So right now we have that CFO legislation just coming into fruition. The end of last year was when they had to have their reports in as to what they see as their plan for the next 5 years in each agency.

Now, it seems to me we have given some pretty good tools to the Office of Management and Budget to do the things that have to be done; but we haven't seen the administration jump on those things and really use them the way I think they should be used. The IGs have done pretty well after we expanded their operations. Year before last, they referred to Justice 6,177 cases that were successfully prosecuted and got back a little under \$1 billion, which I mentioned briefly this morning. So we have given them some pretty good tools.

Now, I would like to have you give us some of your views on the "M" in OMB, what you plan to do in that area, how you plan to go at it.

I don't know how you go at this, but we want to work with you just as closely as we can. We think we have given the OMB most of the tools it needs, and now we just need OMB to really go at this thing and do it.

We also provided under the CFO Act a different organization, as you are aware. We provided for a deputy for management there. I would appreciate your comments on whether the deputy for management and the deputy for budget matters are going to be coequals, or are they going to be one under the other, or how do you see that whole thing shaping up, because how you organize that, and the people you put in there immediately, and what marching orders they are given, is going to go a long way toward seeing whether we can get that \$180 billion waste, fat, fraud and abuse back and whether we are going to be able to operate a real lean, mean government here that the people of this country can have some faith in.

Would you give us your thoughts on that, please?

Mr. PANETTA. Senator, you and I have talked about this, and I have looked at the whole issue—you know, every time we've developed a budget resolution, somebody says all you have to do is just go after the waste, fraud and abuse—and as a consequence, we began to do some studies on the management side and tried to see just exactly what does that mean, what can we do to try to improve the management of government. It was on that basis that we had a whole focus last year in the Budget Committee on efforts to try to improve management and to try to urge OMB to improve the management side of it.

You are absolutely right, and the focus at OMB—and it is understandable—is that they are trying to develop budget numbers, you've got heavy deficits, you try to work economic plans through,

so what happens is you ignore the management side, and you just kind of allow these operations to kind of go on their own. And I think the result is that we paid a very heavy price for that.

It is not as if the two are not related. When you aren't paying attention to a HUD close enough, you have a HUD scandal, and it results in billions of dollars of costs to the taxpayers. When you don't oversee an S and L situation, ultimately the taxpayer has got to pick up the bill at the other end. When you don't check on procurement at the Defense Department, you pick up the bill on the other end.

So it makes much better sense to try to go at these before the problem happens, and the best way to do it is to try to emphasize this element of the management role at OMB. I fully intend that the deputy director for management will be coequal; that that individual will have key responsibility for overseeing all of the tools you have given us. You are absolutely right; I think we have enough tools right now to do the job. We've got a financial officer system, we've got the IG system in place, we've got procurement requirements that you have given us, we've got requirements with regard to contracting, we've got requirements that have been established with regard to identifying high-risk operations, doing the so-called SWAT team operation to try to deal with those areas of high risk.

I think all of those are good tools, and I guess what I would want to do is to try to establish some kind of comprehensive message that we are not just going to take business as usual anymore from the departments and agencies; that this is an administration that is going to demand that they serve the public. I think the President-elect has made that clear in his support for trying to reorganize government, and his comments about reinventing government. All of that is aimed at one thing—making government work better for people. And I can assure you that this is an area that will get a lot of attention from the Director of OMB, and I would like to continue to work very closely with you and Senator Roth, because you put a lot of time into these issues, and I need to benefit, frankly, from the expertise that you can help provide as we try to deal with these issues.

But I want to assure you that this is going to be a very key priority for me as Director of the Office of Management and Budget.

Chairman GLENN. Do you have anyone in mind yet to fill that CFO position over there under you?

Mr. PANETTA. No, sir. We are looking at a number of names, and frankly, that's a position that is so sensitive—the President-elect himself has said this is a position that I want to talk with you about because it is important to me to get a good person in that position.

Chairman GLENN. My time is up, and I don't have any candidate, but I think Mr. Mazur who came in over there and has been getting his feet on the ground in the previous administration—he had a national reputation established in Virginia as being an excellent State comptroller; that is the reason he was picked for that job. I think he has done a pretty good job in getting this thing started over there. It just needs to be implemented and more push put behind it. You might want to consider keeping him on over there; I

don't know whether that has been suggested to you or not, but I think he has done a good job in that area.

Mr. PANETTA. I have no decision, and we will look at him as well.

Chairman GLENN. You may have some red, hot person who would be even better, but—

Mr. PANETTA. I just want a tough SOB in that position, that's all.

Chairman GLENN. Well, you may have it in the form of Mr. Mazur.

Thank you.

Senator Roth.

Senator ROTH. Mr. Panetta, at the conclusion of my last questioning, you talked about trade. There is nothing in my judgment more important to get this country moving again, to create growth and jobs, than for us to do a better job in exporting American-made products and services.

For 15 years, I have been working on the question of reorganizing trade, and Mr. Wegman and I have worked together in the past. Have you looked at the need to do something in this area to help push American exports?

Mr. PANETTA. All I can tell you is—and it's probably the same reaction you've had—that every time I have to deal with a trade issue, I wind up spreading myself over a number of agencies to try to deal with various elements of the trade issue. It is in the State Department, it is in the Commerce Department, it is with the Trade Representative, it is with a number of other agencies and departments, it is with Agriculture, and it is with others.

Somehow we have got to create a more central focus, it seems to me, on trade issues. Trade is a fundamental, fundamental element of our economy for the future. If we are going to break out of the slump we are in, if we are going to get into the 21st Century and be competitive with the Japanese and with the Germans and with the French and with the rest of the world, we have got to emphasize the trade side of this thing, and it seems to me part of that ought to be to look seriously at the element of reorganization and trying to centralize these agencies.

I know that is controversial. I know that, again, you step on a lot of toes when you get into this game, but again, I think if you are going to try to coordinate good policy in this area, it is something that needs to be looked at.

Senator ROTH. Well, I think you are right on mark, and I do have some legislation in this area. I don't think there is any one, single approach, but I think it is important that we work together to try to bring some sense to this critical area.

Mr. PANETTA. Yes.

Senator ROTH. Going to the Department of Defense for a moment, the Comptroller General was complaining when he was here last week about the duplication, for example, that 4 planes, I think it was, were being manufactured because of the different services and so forth.

Here again, I think we need to look at some kind of restructuring and reorganization. It seems to me that it might well make sense to centralize military procurement within the Department of Defense so that we don't have all this duplication and waste of money which we never could afford.

Would you agree with that?

Mr. PANETTA. I think that's worth looking at. It is a terrible commentary what you heard from the GAO, a terrible commentary when the head of the GAO can't point to one department as being an example of how you operate efficiently. That's scary, it really is.

Senator ROTH. It is scary.

Mr. PANETTA. It really is; to think that there isn't at least one you can point to to say this is an example of how others ought to operate. That is scary.

Obviously, the procurement area is a good example of that. In just the discussions that I have had with individuals who are knowledgeable on procurement, the problem is when you look at some departments, procurement officers are not trained in procurement. They don't really have any kind of basic training that they are supposed to go through. There are no requirements that are being asserted with regard to procurement officers.

The Defense Department, I think, is ahead of the game, because obviously they do a lot more of that, but there are other departments and agencies, frankly, that—the whole contracting out issue scares me in terms of the kinds of operations that go on with people who don't follow up, who don't require certain objectives to be achieved, who don't oversee these contracts when they are implemented.

So I don't think there is any question that we need to do more with regard to the entire procurement and contracting out areas, and the Defense Department, because it is the biggest purveyor of contracts to the private sector, is probably the one area we need to look at most closely.

Senator ROTH. Perhaps the most common theme found in GAO and IG reports on problems in the Federal Government is that someone didn't do their job properly, either through incompetence or inattention. I guess it raises the question: Do our personnel systems adequately enforce the notion of personal accountability?

How can so many government managers and other personnel get consistently high performance appraisals, and yet the programs do so poorly, even ending up on OMB's and GAO's high risk list?

Mr. PANETTA. Again, I think we do have to look at merit and performance and try to build in the kinds of incentives that really say we are going to reward people who do the job and do it right. We just need to do more of that.

My experience is that there are good people out there. We have been talking about the problems in government, but my experience is that there are a lot of dedicated people out there. The problem is and the frustration that they have is that sometimes they are not recognized for the work that they do. So we have got to develop a better system to acknowledge the people who do the job, who commit themselves, and even if we can perhaps provide rewards within the budget process, to say if you can provide certain savings—I have often struggled with this whole issue of always having to arrive at the end of a fiscal year and then having agencies spend out whatever they have because they don't want to wind up with anything in the kitty, knowing that they will be penalized if they do. I mean, that's exactly the wrong incentive we ought to be sending. We ought to send an incentive that if you save money at the

end of the year, we aren't going to penalize you. We are frankly going to give you some additional room, because you have done a good job. I think that is the kind of thing we need to try to focus on.

Senator ROTH. I think we need to look at the question of personnel. I couldn't agree more with you that we have many splendid public servants. But it is the system that prevents them from doing a good job, and I think there needs to be more flexibility there.

My time is running out, so let me change to one other question back in the budget area. I think you introduced legislation last year to extend the Budget Enforcement Act to 1998, which included as part of the sequester mechanism an automatic tax increase. Do you support automatic tax increases?

Mr. PANETTA. Well, Senator, the way I was looking at this is that if in fact you have revenue proposals—and incidentally, it was kind of a 2-part approach that was proposed there; one was that where the President in fact signed off that there ought to be certain revenue increase and then, for one reason or another, Congress failed to deliver those revenue increases, that we ought to provide a mechanism for ensuring that revenues are then put in place. The problem I see is that on the spending side, we've got a very effective tool, which is sequester of spending if you don't reach certain targets. On the revenue side, there isn't a penalty if the committee doesn't come up with the revenues that are required under reconciliation under the budget resolution.

So what do you do in that instance when you fail to get committees to cooperate with regard to revenue targets? That is the one area where we don't have any teeth. And I admit to you that I have yet to design a tool that is fair in terms of trying to meet that need. But I just don't think we ought to ignore the revenue side of this picture if we are going to do full-scale deficit reduction that includes revenues.

Senator ROTH. I have to admit I shudder at the prospect.

Mr. PANETTA. I understand; a lot of people shudder.

Senator ROTH. Again may I just say in closing that I think you are an excellent pick, and we look forward to working with you.

Mr. PANETTA. Thank you, Senator.

Senator ROTH. Thank you, Mr. Chairman.

Chairman GLENN. Thank you. Senator Cohen.

Senator COHEN. Thank you, Mr. Chairman.

I asked you earlier what your definition of "wealthy" is, and I failed to follow up on that.

Mr. PANETTA. I think the definition that the President-elect established during the campaign with regard to I think it was \$215,000 and above in terms of taxable income—

Senator COHEN. Is that joint income? Any couple earning in excess of \$200,000?

Mr. PANETTA. I believe that's generally the target that we are looking at in terms of the upper rate increase.

Senator COHEN. And for an individual, would it be \$100,000?

Mr. PANETTA. I don't know what that number would be, frankly.

Senator COHEN. So any couple that falls below the \$200,000 mark can expect not to pay higher taxes under the Clinton administration?

Mr. PANETTA. As I said, I am not promising anything at this point, because we are looking at everything in terms of a package. But when you talk about taxing the upper income, I think that is the group that falls within that definition.

Senator COHEN. I just want to try to be as clear as we can about it, because President-elect Clinton did indicate during the course of the campaign that he was not going to increase taxes on the middle class.

Mr. PANETTA. I understand that.

Senator COHEN. We have to define what that middle class is. If the "wealthy" are defined as those couples earning in excess of \$200,000, then we can expect that those earning under that would not receive an increase in their tax bills.

Second, it is often assumed that the tax cut proposals during the eighties were all the initiatives of Republicans, and that simply is not the case. As I recall, one of our colleagues in the Senate, Senator Bill Bradley, played a very key role in 1986 in helping to quote "simplify" the tax code by reducing the number of rates and to get them as low as possible, in exchange for a reduction in the tax rates to eliminate many of the deductions.

We now seem to be going back in the other direction. We are going to higher tax rates, and we are going to now start increasing the number of deductions.

For example, I would assume that one of the first things that President-elect Clinton will submit will be a tax incentive package that bears a very strong resemblance to what both houses passed in the waning days of the last Congress, which was vetoed by President Bush because it contained a number of extraneous additions.

In that package, as I recall, we had the investment tax credit, tax credit for research and development, tax credits for passive losses on real estate, other types of tax benefits. The evidence is unclear in terms of whether that is going to produce more savings or be a bigger drain on the revenue side. Capital gains will probably be in the mix as far as President-elect Clinton is concerned. So we are looking at a stimulus package of some significant revenue losses, and at the same time we are proposing some significant tax increases.

We seem to be going back to the future, at least, to what we saw in the early eighties. Have we learned a lesson? Is there some limit at which you say the tax level now becomes so discouraging that it no longer contributes to the economic revival? Revenues are about 18.6 percent of GDP currently. GDP, and that is about the average of the 30-year historical level. Spending is about 24 percent. So we are higher than the spending levels over that 30-year period.

So it is not that the taxes have been too low. It is that the spending is getting too high. I am concerned that we are going to reverse that and increase taxes more, increase the marginal rates, impose surtaxes, and then provide more deductions. We seem to be backing into the future, looking over our shoulders and ignoring what has taken place in the past.

Mr. PANETTA. Senator, first let me say, as I have often said, that when you get to a \$4 trillion national debt, everybody is to blame

in some way. So I am not going to lay the responsibility of that on one party or the other. The fact is we were here in the Congress, and the Republicans were in the White House, and for better or worse, we are now at a \$4 trillion debt.

I do think that at the time in the early eighties when we made the decision to cut revenues at the Federal level, that you simply could not get a handle then on the deficit if you were going to increase defense spending dramatically and then also not get a handle on entitlements. That was a problem. You can't cut your revenues and increase spending and expect that you are going to balance the budget; it just is not going to happen, and people pointed that out at the time. And now we have inherited the whirlwind, and now we are trying to deal with that.

I think there is always this friction between can you develop a more simplified approach to our tax system that basically says we ought to tax a percentage of income, move away from the deductions, move away from the credits, and try to move toward a simplified system. And frankly, I have been one who has supported that kind of approach; that's why I thought the 1986 debate made some sense.

The problem is that if that happens, and you run into a recession the way we have now, we are now in a situation where we are asking how do we then deal with an economy that is flat and in which growth does not look very good for the future.

So we have got to look at a set of incentives that tries to get business back on track and tries to at least stimulate the right kind of investment in terms of those businesses. And it is for that reason that we have the discussion about the investment tax credit, the R and D credits, and the other things that are part of this package.

The bottom line is that whatever you design, you'd better be willing to pay for it. You can't just provide these kinds of benefits in a vacuum. And if in fact it is going to lose revenues, then you'd better make up those revenues because that is the problem; you can't just simply hand out those benefits. And that, incidentally, is the difference with what happened in the eighties.

If we put a package of incentives together, and if we are willing to pay for it over that 4-year period so that ultimately we still stay on a deficit reduction track, then I think we can hopefully provide the best of both worlds.

Senator COHEN. Mr. Panetta, I wrote an article for the *Washington Post* several months ago, talking about ways in which I thought the Republican Party could re-energize itself and become a more effective loyal opposition to the Democratic Party. I suggested that truth-telling was far more important than ideological zeal or saber-rattling.

It is interesting the reaction that the article provoked. I want to cite one example. In the Maine papers, there was a letter to the editor saying that it was a very thoughtful piece, but it revealed an ostensible naivete on my part; that any time people have tried to tell the truth in a political forum, they are usually met with the wrath of those who are unwilling to receive it. That letter writer cited Dan Rostenkowski's foray into the Chicago streets, when his car was pounded upon by some of the senior citizens who were ob-

jecting to his position on the catastrophic health care bill at that time.

The writer also pointed to a candidate for Congress in my own State of Maine who talked about curbing entitlement growth and was met with rather overwhelming rejection at the polls. The writer did point out in the final paragraph that if I really meant what I said, then in all probability I would not be around the next time the voters go to the polls.

I think that really does pose the question for all of us, and one we have to resolve. Is it really worth it for any of us to stay in office if we are simply willing to say "yes" to every group that comes before us and never say "no." In the past, that has been the key to political victory.

The question is: Are we willing to accept that cup of political hemlock? So I am going to ask you whether you are willing to hand that cup of political hemlock to President-elect Bill Clinton, because he and you are going to have to propose some things which are going to be very unpopular. If we only hand the popular things over and say this will do it, then both you and I and the rest who are serving on this Committee and in this Congress know we aren't going to be telling the truth as we are professing to do.

Mr. PANETTA. I think the points you made in your column are right; I think that is the message that the American people sent us in this last election. They said, essentially, "Don't kid us anymore. Don't tell us that you can protect all of our benefits and protect all of the things we receive, and that somehow you can deal with these other issues. Just don't kid us anymore. We have heard enough of that, and we want to be told the truth."

Does that involve risk? Yes, it does involve risk. I can't say to any Senator here, and I can't say to any Member of the House of Representatives that the President-elect is going to present a package that doesn't involve risk. It certainly is going to involve risk if it does the right job.

And I think members have to be willing to take those risks. Why? Because I think the American people want us to do that. They want us to assert some courage in our convictions. They want us to show that we can provide some leadership.

Are there constituencies out there that will take it out on us? You bet there are. Are there people who will say you don't have to do this kind of pain? You bet there are. But in the end, if we do the job, and we take the steps, and we put this country back on the right track, then I think all of us, at least from a historical point of view, will be regarded as having been good public servants. That is, I think, the challenge that faces us.

Senator COHEN. Thank you.

Thank you, Mr. Chairman. My time is up.

Chairman GLENN. Thank you, Senator Cohen. You said they said loud and clear, "Don't kid us," and I think you are right. But I think whatever the programs are that are put forward have to be put forward in a way that we can get over the hump of the next step of what people say, too—"But don't cut any of my benefits."

"Don't kid us"—they want to know the truth, and they will go along with it, as long as their benefits are not cut. If it is going to be something across-the-board, where all this is shared, and peo-

ple understand it, and there aren't certain groups getting off scot-free as there have been too much in the past, then I think you have an enormous historic opportunity here to really do some good.

Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman, and thank you for what you have just said, Mr. Panetta. I wish you well in that, and I think as we have said earlier, the key here is fair share sacrifice.

I think there is more of a political—and I mean that in the sense of public receptivity to some tough medicine than there has been in a long time, because people know how serious the problem is, and it is up to us to be willing to show some leadership. So I appreciate what you have said.

I have just a few comments. First, I did want to follow up on what the Chairman said about Ed Mazur and the position of CFO. I have worked with him some and think he has done good work, and I am now prepared to reveal something that I believe I did not reveal when he was nominated in the last administration, which is that in my first two campaigns for public office in New Haven, CT in Democratic primaries, he ran a ward for me—and I carried the ward both times, against the machine. This was before he became Independent and less identifiable from a political point of view. But I feel that I can now, as the new administration takes office, reveal this lurid part of his past.

Chairman GLENN. This doesn't mean I'll withdraw my endorsement. [Laughter.]

Senator LIEBERMAN. That, incidentally, was the same campaign in which that young Yale Law School student, Bill Clinton, walked in to volunteer.

Very briefly, because in a way you anticipated in response to something Senator Roth said and answered the question I was going to ask you. We have been talking about "reinventing government," which is the term that I believe was invented by David Osborn and Tip Gabler in their book. One of the ideas that they talk about is how to change some of the incentives that are on public employees who are managers, and one of them is the whole idea of adopting what they call "expenditure control budgets," which I guess is something that has been tried, as they report, in several cities. The basic idea is to get away from the "spend it, or lose it" method and create incentives for people so that when they save money, they actually get some of it back to spend on whatever they want to spend it on within their departments.

I gather that the Department of Defense has successfully applied these principles on a small-scale basis already. And incidentally, in that exchange with Mr. Bowsher the other day when he said he couldn't think of one agency that he thought was doing well, he then a little bit later said maybe the U.S. Army, because it had reorganized itself effectively. So my question is, just to follow up on your answer to Senator Roth, whether you would be interested in applying some of these principles of so-called "expenditure control budgeting" on a wider scale throughout the Federal Government.

Mr. PANETTA. Yes. As I have said, I have long looked at the issue of how you could try to provide incentives rather than this kind of counter-incentive that we currently have, and that is one of the ideas that we are looking at very closely to see how we can imple-

ment that, because I think it really does say to people in the agencies and departments that we are going to reward you rather than penalize you.

Now, the problem at the Federal level, as you know, is that appropriations committees, with all due respect to the appropriations committees, if they are looking for money in a set of programs, and they suddenly see one program that has resulted in a surplus because they have been able to save money, and they have a program over here that they like that happens to have used money, then there is an incentive to try to move that money around. We have got to at least provide some clear controls—it probably has to be done legislatively—to assure that that money can be reused by the agency that basically saved it.

So I'm looking at it very closely.

Senator LIEBERMAN. I wish you well on that.

Finally, just by way of process, a lot of fresh ideas have been talked about back and forth here today under the general rubric of "reinventing government." Do you anticipate that there will be a "reinventing government" legislative package that will be sent up to the Hill from the administration, or will there be a series of separate initiatives?

Mr. PANETTA. I can't tell you whether it is going to be in a package or separate initiatives. All I can tell you is that rest assured the President-elect will in fact present approaches to try to implement some of the thoughts that were contained in "Reinventing Government."

I think from a personal point of view, it may make sense to try to package it so that we can kind of move one initiative through the Congress, but it really does depend on the elements of that package, and I think we really do have to work very closely with the Congress and with this Committee to try to fashion that kind of package.

Senator LIEBERMAN. I look forward to working—I'm sure all of us do—with you on a bipartisan basis on this.

Mr. PANETTA. Thank you.

Senator LIEBERMAN. And let me just say finally that I have tremendous admiration for you, generally, but you have done an extraordinarily good job today. And I was sitting here thinking of whether there was anyone else—it's a funny way to go at it, Leon—but whether there was anyone else the President could have appointed to this job who could have done a better job than you did today, and I really can't think of anybody.

You bring great experience, tremendous knowledge of the inner workings of government, and a whole set of values about government which, one, will allow you to hit the ground running, and 2, I think will enable you to do a great job for the country and the President. So we are lucky to have you. Good luck.

Mr. PANETTA. Thank you.

Chairman GLENN. Thank you, Senator Lieberman.

When we talked about this "Reinventing Government," I'm not quite sure I know what we mean, and I am not sure anybody else does, either, to be quite honest about it. I have read most of that book, and it is very, very interesting. Most of the examples are at State and local governments.

When we talk about decentralized entrepreneurial approaches on performance and results, rather than bureaucratic procedures, can you give us any examples of exactly how you understand this and what is going to be done? For instance, how does that apply to a specific problem over at Interior or Agriculture? Are there any examples of exactly what we are talking about?

The concept is a very nice concept, and I certainly go along with it, but I'm not sure how I'd write legislation to carry it out.

Mr. PANETTA. Well, with all due respect to the authors in the group, it is always a problem that when you look at the themes that are set in these kinds of books, they can kind of point to their particular examples, but then to take those examples and apply them to a Federal agency is not always that easy to do.

But I think their basic theme is the right one. I guess that is probably the way to look at this. Their basic theme is don't accept the status quo; ask questions, try to shake the system up, try to provide some different sets of incentives. Don't overburden those who have to do the job with a set of regulations and requirements that basically tie their hands; give them some flexibility, give them some clear objectives and goals, but give them some flexibility to do the job.

Those are themes. I understand that. To try to convert that into reality is not always that simple. But I think if we maybe approach this with a different mind set here in terms of how we can try to make government better and try to develop some of these incentives, then I think maybe we can in fact make government work better.

I think "Reinventing Government" is nice words, and it is a good book title, but I think the bottom line of what they are saying is try to make government work better for people, and that is what I am interested in trying to do. They have got some good ideas. I just think we need to work a lot harder to apply them to the Federal structure.

This is a big structure, as you know, that we are dealing with. It is not that easy to kind of take one, little element and apply it across the Federal board. But if we can make a few of these agencies and departments cooperate in this effort—that's why I like the idea of a pilot program only because I think it then gives you the ability to experiment with some of these ideas and see how they work—maybe we can change the way they operate.

Chairman GLENN. Last Friday, the Comptroller General described some of the government's highest risks from mismanagement, fraud, waste, and abuse. OMB also has a high-risk program. The President's 1993 budget request asks for over \$2 billion to work on 99 high-risk areas. GAO has applauded OMB's effort but has questioned the resolve to really follow through and really solve some of these problems.

I have brought along copies of the things that were released on the high-risk areas of government that GAO has gone through and analyzed, and that they released at our hearings last Friday. I don't know whether you've had a chance to see those yet or not; I brought along a set for you to take with you and read, or pass out to somebody who can review them for you. This is the transition series, as they did 4 years ago, looking at the different depart-

ments and areas of activity of the government, and their recommendations are sort of a "state of the Union" from GAO's viewpoint, if you will, for each one of the departments.

I think these things are very good, and GAO has gotten their expertise together on this, I think, over the years, and I think is doing a good job.

Mr. PANETTA. I've had occasion to talk with General Bowsher on this issue, and I had a chance to discuss some of these elements, and I want to talk with him further because I do think that the high-risk identification is one of the better things that OMB has done in terms of the management side to identify these areas, and then use the SWAT teams as a way to try to follow up on some of these high-risk areas.

So that is a procedure and process that I hope to continue.

Chairman GLENN. Let me go over to financial management briefly. One of the GAO studies of a couple years back identified throughout government—give those to Dick Wegman; he can carry them—one of their studies identified over 400 different accounting systems in government. And then we said there can't be that many, and they said, well, there are 200 major different accounting systems in government. And these cannot talk to each other through their computer set-ups and so on.

Now, there has to be something wrong with that, and I don't know how we get into financial management and really make it effective as long as we have 200, or even 100, different accounting systems being used throughout the various departments of government. I don't know how you reconcile your books over there, or if it is even possible to do that until we get some changes made in government. So it is an enormous effort that you are going to have to put through.

I see the agency CFOs as a critical part of straightening out some things exactly like that, so that our different departments and agencies of government can at least work with each other directly, can at least balance the books, so to speak, and so you can have accurate figures to work from. If you don't have that, I don't know where we go; it is going to be very difficult.

Mr. PANETTA. Senator, I mentioned this to you before, but it kind of blew my mind, the fact that we didn't have any kind of common finance sheets in these different agencies; that it wasn't until we put the financial officers in place that they began to develop a finance statement in many of these agencies and departments.

We have now taken a very important step. I think the financial officers are extremely important. I think I would agree with the criticism that you have made, that these financial officers ought to have that responsibility in and of themselves; they ought not to just be asserted as part of somebody else's responsibility. I think we ought to be able to pinpoint who that financial officer is and make that his or her primary responsibility.

Chairman GLENN. There has been increasing attention to reorganizing government. You introduced legislation last year to reduce the number of agencies within the government. I believe you suggested bringing it down to 8 major different functional areas of government.

Do you still favor doing that? Would you comment on what you think the advantages to it would be? Is it rearranging the deck chairs, so to speak, and putting it under a different wiring diagram, or would it save money, and do you have any estimates of how much it would save? Do you still favor that, number one, and if so, go ahead and outline what you think it would do.

Mr. PANETTA. I do like the idea very much because, as I said, what we need to do—and I am not saying that you could ultimately save a lot of dollars and neither am I saying that you would necessarily reduce some of the levels of employment that we have here—but what I am saying is that from a policy point of view, we need to begin to centralize some of these policy issues so that you don't have these cross-jurisdictions and hammers going on certain areas.

Just take the wetlands issue alone. You know the controversy on the wetlands issue. The wetlands issue involves some 6 different departments and 4 or 5 different agencies, and the end result of that is that you don't have any kind of very clear policy that is presented to the country.

The same thing is true on a number of other issue areas. Energy is spread out among a number of different departments, and trade, as I mentioned.

It seems to me that as a Nation that is entering a new century, we need to focus on what are the important issues for this country to deal with as we enter this new century. Well, natural resources is one of those; how to manage our national resources, how to deal with environmental issues that relate to those national resources. Doesn't it make sense to try to coordinate policy in those areas? Trade, as I mentioned, is another area. Human resources is another area.

Why can't we do a better job in the very least of centralizing policies in these areas so that instead of having to deal with 25 people in a room, maybe we could deal with one or 2, who might have some say and might be able to affect policy in these areas?

So that is why I have been a strong advocate of that kind of reorganization. I know the risks, as I said, of going through that process, and I know the feet that you step on when you start to propose those kinds of ideas. But I guess I would ask for a kind of cooperative effort to look at ways to try to improve organization in government, if for nothing else so we can do a better job to coordinate policies.

Chairman GLENN. My time is up, but let me just ask one little follow-up question and you can give a brief answer, if you could. Do you think that we would have to reorganize here on the Hill at the same time you would reorganize departments of government? Would there have to be comparable changes in structure?

Mr. PANETTA. I think ultimately that probably makes sense.

Chairman GLENN. In other words, it could not be done solo in the executive branch.

Mr. PANETTA. I think that's right. I think it has to be matched on the congressional side.

Chairman GLENN. Thank you.

Senator Cohen.

Senator COHEN. Mr. Panetta, you talked about authors, and somehow, those of us who profess to be indulging in the presentation of facts, it turns out to be fiction. Some of us like to indulge in fiction as a way of talking about the facts. But that is the subject of another matter.

Very little time has been devoted today to talking about the regulatory burdens that we place on business, and I think that we are in danger, really, of suffocating that goose that used to lay the golden eggs. It is not that we should in any way minimize or try to change the safety laws that we pass or the environmental laws, but we have got to find a way to streamline the regulatory process.

One of the most persistent complaints that I hear is how long it takes to do anything in this country. If you want to start a new plant or a new business, by the time you go through the whole series of duplicative regulatory institutions that one has to pass through, then all incentive is lost to starting the business up in the first instance. And I can talk about a process on the coast of Maine that has been on the books for 10 years. For 10 years they have tried to start this particular project, and it is nowhere closer today to becoming a reality than it was 10 years ago—and it is unlikely that it ever will be, because of the regulatory process.

So we have got to find a way—and I think that comes through your office as well—of trying to meet the environmental standards or safety standards, or whatever the social goal may be, but to do so in a reasonably responsible time frame. Otherwise we are going to continue to put up roadblocks which are going to discourage businesses from locating here and seek to go elsewhere, outside the bounds of the continental United States.

Mr. PANETTA. Senator Cohen, I just want to assure you the President-elect has this at the top of his agenda, because from the State level, he has experienced the kind of regulations and requirements that the Federal Government has handed down, and he has said that there has got to be a better way to try to expedite these things.

Senator COHEN. I assume that you read "The Education of David Stockman," Bill Greider's piece that appeared in the *Atlantic Monthly* some years ago.

Mr. PANETTA. Yes.

Senator COHEN. I think what came through—a number of things came through in that particular piece as well as David Stockman's book—but it is not policy that drives the budget, but rather, David Stockman's own realization—it was the budget that made the policy. There is going to be tremendous pressure placed on Bill Clinton to keep his quote "promises," and already you can ready the front page of the *Post* or the *Times* or any of the other publications and say he is in the process of backtracking away from every promise that he made during the course of the campaign.

I would hope that you would recommend a stimulus package that would be modest. I think the greatest weight ought to be placed on the long-term question of deficit reduction, that it be credible, as you've talked about. There is a fear on my part that if we provide too large a stimulus package—those incentives take quite a while to come on line, and they might come on line just as the economy is starting to bloom, and then we end up heating up the environ-

ment—call it a “continental warming,” if you will—and we set off higher interest rates and high inflation.

So I would hope that any package that he feels compelled to put forth in order to keep a promise about stimulating the economy will be kept in that kind of balance.

Mr. PANETTA. You and I share the same concerns.

Senator COHEN. OK.

Mr. Chairman, I think that's all I want to ask Chairman Panetta, other than to comment about this issue of what we say and what we do, because as we sit here this afternoon, every one of us can take the pledge that we are going to do the long-term balancing of the budget, or coming as close to it as we possibly can, to revive this economy; and yet each one of us will be presented with key local issues that will affect directly how we feel about it.

For example, Senator Dorgan talked about agriculture, and that is near and dear to his heart as it is to yours. Senator Glenn and myself might talk about defense issues and how they impact upon our own domestic economies, our State economies.

But the fact of the matter is that we have got to measure up to our responsibilities and take those tough decisions, even if it means that we are not going to be around here the next time we go to the polls. There is no other way, in my judgment, of ever coming to grips with the problem that we have to contend with.

I am fond of citing Jefferson, who said that whenever one generation spends money and then taxes another to pay for it, that we are squandering futurity on a massive scale. I believe that we have been squandering the future of our children on a massive scale, and it is going to take a massive undertaking for us to preserve whatever legacy we want to leave for them. And that will not come about by us trying to please our constituents at every turn. It is going to mean we are going to have to sacrifice our own offices in many cases, and the real question is: Are we prepared to do that. And I think the jury is very much out on that.

Thank you.

Chairman GLENN. Thank you, Senator Cohen.

Senator Dorgan.

Senator DORGAN. Thank you, Mr. Chairman.

I certainly agree with much of what Senator Cohen has said. Senator Cohen, I think, has aptly described the challenge. If we are truly serious about grappling with this problem, then we have got to do more than just what is popular with our constituents. The fact is the American people believe that about 50 percent of every dollar that is spent by the Federal Government is wasted. That is not true, but that is the perception.

Most of that money ends up in someone's pocket in a transfer payment. That's where the bulk of the spending occurs. And if you are going to intercept and change that, you've got to deal with those big areas, including entitlements, and own up to the issue.

Senator Cohen this morning talked a little about spending and cuts from the congressional side. I was thinking about last February when I looked at the budget that the President sent to us. If we had just decided, OK, we're going to shut Congress down after the next hour, and in the next hour we are simply going to pass this budget, line for line, with every period and every “t”

crossed—it's just yours, Mr. President; we just buy into the entire thing—we would have added \$1.8 trillion to the debt. If you actually added the Social Security money that will be misused, it would add \$2.2 trillion to the debt between now and 1998.

This, in my judgment, is truly a bipartisan mess, created in a bipartisan way, in which every day, 7 days a week, we spend over \$1 billion that we don't have. And we can look at a lot of separate policies—I'd like to ask you about burdensharing—is there some money that we can and should get from burdensharing? I believe there is. I talked this morning about deferral. I talked about taxes paid by foreign corporations. But if we are going to deal with the broad context of this problem, it is going to require an enormous amount of courage and some broad policy changes.

I'd like to ask finally, Mr. Panetta, what do you expect us to see when you send the budget to us in terms of the out-years? You have been so strong on the floor of the House over the years about gimmicks. I fully expect not to open a budget and see any gimmicks. I would be the most surprised person on the face of this earth to see a budget that comes from Congressman Panetta that is full of gimmicks and tricks and deferrals and things like that.

So what do you think, honestly, we are going to see when we see a budget from this administration? Are we going to see something that projects real serious decisions that have significant budget consequences that ratchet down that deficit?

MR. PANETTA. Absolutely. I think first of all, you are going to see a set of assumptions about where our baseline is going to be that I think will be credible and will be in line with what economists are saying about where the economy is headed.

Second, you are going to see a series of decisions in each of the areas I talked about, whether it is defense, non-defense, entitlements or revenues, that are going to involve some very tough choices. The credibility of this package will be based on those tough choices.

But I am not going to say to you now that there is going to be an easy way to do this; there simply isn't. It is going to take some tough choices, and we are going to have to build them into that plan.

Then, I guess what I hope to have in addition to that, that the President-elect will submit, is a package of investments that will show where we need to at least target some investments in terms of our society as well.

It is that package that the President-elect is going to present to the American people as his economic plan, and as I said, we've got a small window of opportunity here to try to get this done. The American people want to see some action, and we are going to have to work together to try to get that accomplished.

It is risky. It is going to take, as I said, some will and courage on the part of every member to do it. But we cannot afford—I think the bigger risk is if we don't do anything, if you want to know the truth. I think the bigger political risk is if we don't do anything, and I think the bigger substantive risk is if we don't do anything. If we just walk away from this for whatever reason we have for not dealing with this package, I think then we do a disservice to the Congress and to the country.

Senator DORGAN. You talk about investment tax credits and the whole series of devices. There are some in this town who believe the keys to the kingdom of economic growth rest somewhere in the bowels of the tax code, or somewhere in a secret, closed room down at the Federal Reserve Bank. In fact, it seems to me that the keys to the kingdom of economic growth rest in the confidence of the American people about the future. And if you view this economy and the mechanisms to change it as in the engine room of a ship, those who tell us, "If you just turn this knob this way and pull this lever that way, and you just get it all right, somehow it is going to work"—they misunderstand.

This ship floats on confidence, and the fact is that if the American people are not confident about the future, there isn't very much we can do to have an economy that is robust and growing. They are going to be confident, it seems to me, if they see a Congress and a President confronting and solving problems. That is what breeds confidence.

If they think their future is going to be better because we are making decisions today to create a better future, then we tend to build confidence in the system.

Frankly, we have a \$400 billion deficit, or just slightly under that. I wouldn't spend a lot of time losing sleep over a \$400 billion deficit if in fact we spend \$400 billion, and we cured cancer. I'd think, heck, if you capitalize that over a short period, that would be a pretty good investment. But the fact is we didn't cure cancer by spending \$400 billion; we didn't do 100 other wonderful things by spending \$400 billion we didn't have. This is an operating budget deficit. We just spent more than we had on an operating budget situation, which I think is devastating.

So, as I have said twice today, I really think you have a big job, but you are the perfect person to do it. I wish this President well, I wish you well, and I think every Republican and every Democrat in Congress has a stake in the outcome. And if we don't decide that the last election was not about changing Congress—yes, there is plenty to change here, but it was about changing the economy system to put it back on track, to give people opportunity and hope through economic growth—if we don't understand that and aren't willing to act together to accomplish that, they ought to throw the whole works out.

I just think that people back home from my State feel better. They think maybe we are going to end the gridlock, maybe we are all going to make tougher choices.

So I wish you well, and I want to thank the Chairman for his patience in these hearings; I think they have been very instructive.

Thank you very much.

Mr. PANETTA. Thank you, Senator.

Chairman GLENN. Thank you very much.

One thing that I don't believe it has been asked today—if it has, I missed it somewhere along the line—do you favor the consumption tax approach? We have talked about taxes back and forth here, but do you favor that approach?

Mr. PANETTA. Well, I favor looking at the idea of some kind of VAT tax or consumption tax. I think it is going to take some work, I think it is going to take some study, but I think it is something

we ought to in the very least look at as a possible option. Again, as I have said, everything is on the table, but I think this is one area of revenues suggested, obviously, in the Domenici-Nunn package, but I also think that ultimately, in terms of our overall revenue system, the likelihood is that we are going to have to look at some kind of VAT for the future, if it is designed right, if it replaces other taxes, if it is designed in a way that basically helps advance some of the concerns that we have within our own society——

Chairman GLENN. Savings, some savings?

Mr. PANETTA. That's right, and if it promotes savings. I think it is worth looking at.

Chairman GLENN. I mentioned earlier the IGs. I think they are doing a good job. I think the dual functions of the IGs to really get into criminal activity and fraud within the agencies and departments is good, and the CFOs, then, to oversee the efficiencies of that particular department that don't involve fraud or criminal activity at all are good.

Do you see any other ways that we can strengthen the IGs' mission? Let me just point out what I am getting at here, and it's a statement more than a question. One of the things we have noted is the IGs come up with some very good things. They make suggestions on things that they think will improve the operation of that department or that agency. They make the report to their own boss within the agency, and they send us their reports up here. Then, too often, unless it is something that is referred over to Justice for prosecution, it sort of drifts off into never-never land, and the boss doesn't really do anything about it over there in the agency or the department.

I hope that in your new position, you can let these heads of departments and agencies know that once you have reviewed what the IGs are doing that you are going to stand behind them and really put some teeth behind these things. It doesn't all involve criminal activity. And I think there could be some major improvements made in departments and agencies if they listened to some of these IGs.

Every IG is not perfect—I am not claiming that—but by and large I think the IGs have done an excellent job.

Mr. PANETTA. I agree with you, Senator. I think they have done an excellent job, and I think that the way to emphasize that is to include a look at their recommendations as part of the budget review process. I think that is the best way, then, to try to make things happen.

Chairman GLENN. OK, good. That's excellent.

One of the actions over at Justice was basically that the Justice Department gutted the jurisdiction of its IG office recently. I would appreciate it if you could take a look at that and use your influence from OMB to see if we can't get that one straightened out. I think the new Attorney General may well want to reverse the course of what they did to the IG over there.

Mr. PANETTA. I have been made aware of that through your staff, and I have been made aware of your concerns, and I share those concerns and intend to bring that to the attention of the new Attorney General.

Chairman GLENN. OIRA has been mentioned a couple of times today. It was created by the Paperwork Reduction Act precisely to improve the management of government information, both to reduce paperwork burdens on the public and to more effectively and efficiently use information. This one has gotten all bound up and all crossways with the Council on Competitiveness, as I think you are aware. We thought that we had all the new ground rules for how rules and regulations were supposed to be taken care of—we thought we had that all worked out 2 years ago with Mr. Darman. In fact, we have a letter in the file about that, which accepts our proposal or accepts what we had worked out over about a year-and-a-half of negotiating at that time.

Now, because there was a hold put on that in the final days of the Congress 2 years ago, a hold over on the Senate floor, it did not get put into effect. And shortly after that, we think we know why it was not put into effect; it was because the Council on Competitiveness then wanted to start passing word to OIRA as to what it was supposed to do.

We had Mr. McRae in a hearing before this Committee in which he said that the Council on Competitiveness only gives them advice at OIRA. And I asked him at the hearing to give me one single time when advice had not been taken, and he sat in rather embarrassed silence for several seconds and could not think of one single time when advice from the Council on Competitiveness had not been taken at OIRA—and he had just finished a few moments before that saying there are hundreds of communications back and forth between the Council and OIRA.

So we know what is going on. There have been newspaper accounts—these are not my charges—that the people who got their hearings before the Council were people who were major political contributors. There have been newspaper articles about that. No records were kept of Council meetings; no agenda was set for Council meetings; the meetings were not announced. And yet they apparently were controlling a good bit of what OIRA did.

My objection was not trying to cut out somebody who is doing a regulatory review job. We need regulatory review. Every one of the rules and regulations writers over in the agencies is not perfect, and sometimes, for lack of our specificity here in writing laws on Capitol Hill, they need to look at these things carefully, or they sometimes get carried away in their own enthusiasm for their own particular area of expertise over there, whether it be environment, manufacturing, or whatever, and they write rules and regulations that certainly do need to be reviewed—you mentioned a couple of them, I think, earlier today—they need to be reviewed. So I don't quarrel with that at all.

And whether the review is done at the Council—which I think expires now on January 20th—or whether it is done where I think it should be, in the open, at OIRA, it has to be an open process if the American people are going to have faith in their government, that they are being dealt with fairly. That is so key, it seems to me, and that is what we have not been able to get.

I had a personal, one-on-one meeting with the Vice President about this whole thing and got nowhere. Senator Levin did the

same thing and got nowhere. We have been stymied in being able to take care of this.

So I hope that the review process on rules and regulations is a very active one, because I also support the statement that Senator Cohen made a few moments ago: Business is being stifled. If there is one item that was different that I can point to, just very clearcut, as a difference between my reelection 6 years ago and my reelection this past fall, it is that almost every time I gave a major speech someplace, I would have several business people come to me and complain about the rules and regulations, that they are stifling.

A friend of mine in Florida who started a business recently said, had he known the rules and regulations he was going to get into, he wasn't sure he would have gotten into that kind of business operation, because there were just literally hundreds of rules and regulations, Federal, State and local.

I have talked to GAO about doing a study about how this has increased through the years, so we can perhaps get a gauge on how businesses are being impacted. But I have heard more complaints over this past year from business people about how the rules and regulations are just eating them alive. And I think that OIRA can be an extremely important part of your operation there if it helps to straighten out the impact on business of all of the rules and regulations that are written pursuant to legislation that we pass here on the Hill.

That's obviously more of a statement than it is a question, but I just wanted to state my concern to match that of Senator Cohen's, that we really have to do something about this area because it is really having a major impact on businesses and is stifling business, and particularly small business, which is where most of the new jobs come from.

Mr. PANETTA. Well, Senator, when I first looked at this job, I knew that I would be dealing with budget issues, and then looked at the other aspects that were included here and realized how much of a challenge it is, and this is one of those areas.

OIRA is a very important office for the review of regulations. I think you are right. The Competitiveness Council, we know what the reasons were behind the way it operated. I think that is unfortunate because it obviously impacted, then, on the credibility of the process. But my hope is to return honesty to that process again, that we review these regulations, but we do it in an open process. And I would like to work with you in trying to establish procedures to make that process open so people know what we are doing.

Chairman GLENN. We haven't talked about this extensively, but what is your opinion—do you think regulatory review should be in statute, or is this something that can be done by executive order?

Mr. PANETTA. Well, I think probably that depends on our working together to try to work out those procedures. If the feeling at the end of that is that an executive order can fulfill those requirements, that is fine; if the feeling is that we ought to try to do it in statute, to try to make sure what those procedures are, that would be fine with me, too. I think probably the key right now is let's work together on the process, and then we can make the decision as to what is the best way to implement it at that time.

Chairman GLENN. I don't disagree with that, and I think that whatever we do, we want to do it right; but I think this idea of sort of leaving it out there in never-never land where somebody sort of decides to form a committee or a council, and it will direct OIRA, and it will do something or another—this may have been very enticing, but I don't want to leave that temptation out there for other people.

Mr. PANETTA. Yes, I understand.

Chairman GLENN. OK. In your pre-hearing answers, you discuss reinvigorating OMB's Office of Federal Procurement Policy, OFPP. Could you expand on those views? What can you do to give OFPP the clout it needs to stand up to agencies like DOD and Justice, where they have had some differences of opinion?

Mr. PANETTA. As I indicated, we are looking at almost \$200 billion worth of procurement contracts that are out there, and this is a big load of money that the Federal Government does through its procurement process. Obviously, the biggest chunk is at the Defense Department.

One of the things I think this office needs to do is to begin to focus on requirements for training of procurement officers. This is one area I mentioned in response to another question. The procurement officers simply are not required to go through a training process. They need better expertise.

In terms of contracting out, we need to make sure that agencies are not only issuing these contracts, but establishing objectives and goals, also monitoring those contracts to make sure they are fulfilling that requirement, and also following up to make sure that in fact the job is getting done.

I think too often right now, the experience is that those contracts are being issued, and there is not enough follow-up to make sure the job is getting done. Someone mentioned the hollow government problem; well, this is part of the problem in terms of these contracting out areas where we don't pay attention to just exactly whether the mission is being done or not.

So there are an awful lot of steps that need to be taken here, but I think the first is that we need good procurement officers in each of these areas to make sure the job is being done right.

Chairman GLENN. You mentioned contracting out, and that was going to be my next question. Senator Pryor wasn't able to be with us here today, but he has taken the lead on this Committee with his Subcommittee on dealing with some of the contracting out problems. They have done some studies in that area and have some real horror stories to talk about with regard to contracting out.

Now, that is a double-edged sword, of course. Some legitimate contracting out occurs when an agency has a special problem, and they want to contract out without bringing on more government employees to take care of that particular problem. They can do the contracting out, and take care of it without setting up a whole new group of civil service employees. That is one approach to it.

Another approach is where we just contract out on a continuing basis, year after year after year, until, like one of the agencies that testified before the Committee, they have become so involved with the contractor that they contract with, that they actually testified

they could not run their department now without that contractor. Now, situations like that have gone too far.

Then we have DOE, which controls the whole nuclear weapons complex by contracting out. That worked well through the years by and large, but now there are some areas where that doesn't look quite so good now.

Do you have any thought about this contracting out? I am afraid that if we cut 100,000 people out of government as the President-elect has proposed, that we'll find ourselves in a situation where some of these agencies say, "I am being asked to do so much, I have got to contract out to do it," and we are just furthering this cycle of contracting out by cutting back on Federal employees. It is a little bit of a chicken-and-egg situation, but do you have any comment on how you plan to handle that situation, or how you plan to look into it?

Mr. PANETTA. That is an area, frankly, Senator, where I have got to do a lot more work in terms of looking at the basic problem and trying to get the best information I can on the concerns that are out there.

I don't have an objection to the basic approach of contracting out certain services. That is needed, and we need to do it in a limited way. What I don't want to see happen is basic services that ought to be performed by that department, that ought to be performed by that agency, and then they start contracting those services out so that they are dependent on a contractor in order to do their basic mission.

That's what concerns me, and I think that is what we need to look at.

Chairman GLENN. Your colleague, Alice Rivlin, will be before us on Wednesday of this week. She has written a book in which she calls for a new federalism involving a rigorous review of government activities and a reliance on State and local governments for many activities now undertaken by the Federal Government.

Do you have any comments on her book—well, do you know whether she still keeps these same views or not?

Mr. PANETTA. I think Alice obviously has done some very good work in this area in terms of trying to analyze whether there is a way to try to restructure government in terms of responsibilities and efforts—can local and State Government pick up some of these responsibilities, can the Federal Government define some responsibilities that it ought to have.

Obviously, there is a lot of dispute—once you get into this issue, it is like getting into the issue of reorganization, and who is going to take what, and whether somebody can do it. But I think the basic theme is is there a better way to try to reorganize responsibilities here, because right now, frankly, it is the problem of the mandates. I mean, the Federal Government issues mandates, doesn't provide the resources, asks State and local governments to perform certain services, and we don't give them any support. Is it a better way to say to State and local government, "You handle this area. You try to deal with certain issues"?

I don't want to, obviously, have the Federal Government in any way kind of give up its responsibility in key areas, but I do think that we can look at better ways to try to get the job done, and she

has suggested some pretty good ideas that at least we ought to explore. As I said, I know they are controversial, but I also think there is some merit here to try to perhaps better define responsibilities.

For example, if the Federal Government on a health care approach decides to pick up Medicaid from the States, what are they going to pick up then in return for that? That is a question we need to ask.

Chairman GLENN. There have been proposals to eliminate or consolidate most of the Federal grants to States and localities. Do you favor that?

Mr. PANETTA. Again—you mean in terms of what—some kind of going from special grants or targeted grants to some kind of—

Chairman GLENN. Well, as these functions go back to the States, you'd give them a pot of money, and they would organize and do it themselves, rather than having it directed from here. We would be mainly the source of money more than we would the direction of the program.

Mr. PANETTA. I think there are some areas where you can do some consolidation. Obviously, there are other areas where I think the Federal Government has identified a particular need, and that is where we are providing the money, and I think we have got to be careful about some areas. For example, if there is an education program that we want to make sure happens, then we want to target it. But I think there is some consolidation on grants that can take place.

Chairman GLENN. We are winding done, and we'll be done in just a few minutes. I know we are running a little bit over, and I said we'd end by 4 o'clock, but I had a couple of other things I wanted to talk about for just a moment, and then we won't have to come back tomorrow. No one has indicated a desire for that, including you, I'm sure.

In the hearing that we had last Friday with the Comptroller General, he broke his comments down into basically 3 areas—(1) lending and insurance issues; (2) contracting issues, and (3) accountability issues.

Now, I think some of these figures were rather interesting, and I didn't try to copy all of them; these are just from the notes that I made at the meeting. In agriculture, for instance, out of a \$20 billion program for Farmers Home out of the FMHA, \$7.6 billion of it went bad. That is enormous. And they testified that quite often, when these loans go bad, they just mark them off the books and give the farmer another loan to start on.

Now, there has to be some correction for something like that.

Student loans was an area where they testified the records were so poor that they don't really know exactly what our student loan program is because the recordkeeping is so poor.

Bank insurance funds were in sort of the same position.

The RTC, we aren't quite sure of the future of that at this point, and they didn't have any recommendation on that.

Another one, I mentioned earlier today, PBGC, Pension Benefit Guaranty—once again, the records are so poor, they said they really could not give us an estimate in which they would have full confidence.

These are areas that I think you are going to have to get into.

Medicare—there is enough fraud in Medicare that the figures are very doubtful in Medicare. And one of the subcommittees here that Senator Nunn heads, the Permanent Subcommittee on Investigations, has done some studies recently on the Blue Cross system—I'm sure you have seen some things about that in the newspapers, about those hearings—where the Blues in the Mid-Atlantic States area are having some very, very serious and difficult problems, and there may be a lot of fraud in areas like that.

That, along with the high-risk areas that are in the booklets there that I sent down to you a little while ago, are things that we are going to be wanting to follow up on, and the potential liability there—and I'm not trying to scare everybody—but the potential liability of \$6 trillion in those high-risk areas.

Now, under contracting, GAO talked about how much work needs to be done yet in the Defense Department on weapons system acquisition, on contract administration. They talked about contract management over in DOD. And there was just one thing after another on contract management within DOE on some of the nuclear weapon systems and the cleanup that we are going to have to do of all those different sites.

The current estimate of what it will take to clean up those sites is \$160 billion over a 20- to 30-year period, if we can figure out how to even do some of the cleanup. Some research needs to be done on even how to do some of the cleanup.

Another thing GAO mentioned was EPA—there has been \$5.7 billion classified as recoverable from different fines and so on within EPA—only 10 percent of that is collected. A lot of it is negotiated down, which it shouldn't be, and it has become cheaper for some of the people being fined under EPA to pay their fines, continue polluting, and pay another fine when they are charged again, because they can always negotiate it down.

Under accountability issues, then, we have defense inventory management. It was estimated 10 years ago that we had excess inventory of \$10 billion in defense inventory; now it is estimated that we have \$40 billion. It has gone up \$30 billion in the past 10 years.

IRS receivables—I mentioned that one earlier today—there is \$110 billion that is owed to IRS. They are making a little progress here—the old figure of what they thought we could actually collect if we had the people to do it used to be \$37 billion; they now estimate that at around \$30 billion.

Mr. PANETTA. If your list is much longer, I am going to reconsider taking this job.

Chairman GLENN. I don't want to discourage you. [Laughter.]

Well, as it happens, that's about the last one I had, because I don't want to scare you out of this job.

I am just indicating, to come back to where I started this recitation here, the "M" in OMB is a very, very fertile field. When you're talking budget matters over at OMB, you'd better also be talking about "M" and management, not just confidence in government, but all of these things put together are enough billions of dollars that they are going to be a big help in helping us sometime balance the budget if we can get control of this, and at least not dig us any further in the hole, that's for sure.

Mr. PANETTA. Exactly.

Chairman GLENN. Well, I don't know whether you have any final, wrap-up comments you wish to make here today. Obviously, everyone has wished you well. I haven't heard anyone at all say that they are even remotely considering voting against you. I would imagine that your vote on the Committee is going to be unanimous. I want to see that vote as early as possible so that you can hit the ground running, or working, or whatever you are going to do over there, on the day that the President-elect is sworn in, because I think it is that important.

I know there are other people, the Secretary of the Treasury, Lloyd Bentsen, and Mr. Greenspan, and other people, who set more of the long-term policies that are going to impact our economy for decades and generations to come. But in the day-in, day-out operation of the operation of government, I think, as I said earlier, your position is the most important position in government, second only to that of the President himself. And that is the reason why we have gotten into a lot of details here today, because the Committee has been very, very concerned that we get you in place over there, and early on, so you can start really getting control of this whole thing. It is going to be a very difficult job.

I wish you well in getting the best people. I come back to that as a closing comment here. I am sure you will be talking to the President-elect before I will. You might even consider passing along that I certainly feel, and I think this Committee would probably fully support, a requirement for how long his appointees will stay in office—not what they can do after they get out; I'm not half as concerned about the 5-year rule at the end of tenure in office as I am about keeping them in office long enough to do the job that has to be done. And when you have a 21-month average tenure in office for top government positioning, it is no wonder we are in a mess most of the time.

So I'd just close with that and wish you very well. The Committee record will be kept open in order for Members of the Committee to have the opportunity to submit additional written questions if there are any. And I would appreciate your prompt attention in responding to any such requests, but I guess I should congratulate you in advance almost here today. We look forward to working with you. I think you have a great challenge ahead, and you can do a good job there.

PREPARED STATEMENT OF SENATOR NUNN

I am pleased to welcome Congressman Leon Panetta, President-elect Clinton's nominee for Director of the Office of Management and Budget, whose nomination is to be considered by the Senate Governmental Affairs Committee today.

During his 15-year tenure in the House of Representatives, Congressman Panetta has established a reputation as an expert on fiscal and economic issues and has compiled an admirable 4-year record as Chairman of the House Budget Committee. Congressman Panetta will bring an in-depth working knowledge of budget policy to his job as OMB Director. I believe the President-elect made an excellent choice in Congressman Panetta.

Congressman Panetta would agree with me that we must begin work on making our Nation fiscally, socially, and governmentally sound so that we can retain America's competitiveness for our children. As Congressman Panetta knows all too well, the Federal budget deficit has become a fundamental obstacle to both short-term economic recovery and long-term economic growth. It is the single most important reason that the United States lags far behind its competitors in the national savings

rate, which in turn is the single most important reason that the United States lags far behind its competitors in the national savings rate, which in turn is the single most important indicator of our ability to invest in productive capacity. I look forward to working with President-elect Clinton and Congressman Panetta as they develop a comprehensive approach to address our long-range fiscal needs.

While the enormous challenges of the Federal budget deficit will undoubtedly be the principal focus of the Director, OMB has substantial responsibilities and authorities with regard to the overall management of the Federal Government and its relationships with the states and their local governments through the intergovernmental grant system. These substantial management functions of OMB, often referred to as the "M" in OMB, have been a consistent matter of importance to this Committee. Under the leadership of Chairman Glenn, with substantial assistance from Senator Roth, myself, and other Members of the Committee, I suspect that we will continue to try to move these government-wide management issues closer to the top of the Director's "In-box."

In this regard, the Congress is not merely providing responsibility without necessary statutory tools to attain the desired objectives. On the contrary, this Committee has provided the President and the Director a strong array of statutory authorities relating to the overall management of the Federal Government. I would like to mention but three of the most potent: the Paperwork Reduction Act of 1980, the Office of Federal Procurement Policy Act, and the recently enacted Chief Financial Officers Act. Each provide valuable authorities which can go a long way to improving the overall management of the Federal Government, improving program delivery to the public and reducing the burdens placed upon the public by the government.

I am hopeful that Congressman Panetta shares my serious concern about these matters, and I look forward to working with him in the coming years.

Mr. PANETTA. Thank you, Senator.

I want to express my personal thanks to you and to your staff and to Senator Roth and to his staff and to all of the Members of the Committee. You have treated me very cordially, and you have provided obviously all of the questions you have had to get, and the backup you have had to get, which I think is a credit to your Committee in terms of thoroughness, in terms of looking at each candidate. That had to be done, but it was done in a very cordial way, and I appreciate that and appreciate the manner in which you have dealt with me and my staff.

I also want to say to you that you have my commitment that I will continue to work closely with you and your Committee and your staffs, because I think both of us have the same goal in mind—trying to improve the operation of government. This cannot be done just by myself. Obviously, I cannot produce miracles alone; I have got to work with all of you to try to see if we can take on these challenges.

It is a big challenge, but the reason I took it on is because I think we can make a difference, and working together, I am hopeful that we can do that for the American people.

Thank you.

Chairman GLENN. Thank you.

The hearing will stand in recess subject to the call of the chair.
[Whereupon, at 4:37 p.m., the Committee was adjourned.]

Panetta: Preaching a Gospel of Fiscal Responsibility

Budget Committee Chairman Tells Skeptical Constituents Sacrifices Must Be Made

By John E. Yang
Los Angeles Times Staff Writer

SALINAS: Call—Leon E. Panetta, whose job as Budget Committee chairman is to lead the House's leading disciple of fiscal responsibility, is preaching his gospel to a skeptical congregation.

"It is a serious crisis that we live in the federal budget deficit, and that is a serious crisis," he said, "but we have to understand that all of us are going to have to make sacrifices. We have to understand that all of us are going to have to make sacrifices."

At state, he added, is nothing less than "our leadership strong." The seven-term Democrat declared that state, he added, is nothing less than "our leadership strong." The seven-term Democrat declared that state, he added, is nothing less than "our leadership strong."

It is a message that reflects the roots of this 51-year-old son of Italian immigrants who was raised in Monterey. "Spaghetti Italian neighborhood," he said, "but I was born in Monterey. I was born in Monterey. I was born in Monterey."

Panetta's varied district, which stretches 150 miles along the coastline from San Jose to the Mexican border, is a mix of urban and rural, of high-tech and low-tech, of wealth and poverty. It is a mix of urban and rural, of high-tech and low-tech, of wealth and poverty.

Audiences in Salinas, Monterey and Fresno heard more questions than answers as Panetta tried to fill the void left by the deficit. He said, "I'm not going to be satisfied to pay more taxes until I see a path to reduction."

He was plenty that the solution to the deficit, projected to be more than \$200 billion next year, must include both spending cuts and tax increases. "The budget is the only way to solve the problem," he said, "and the only way to solve the problem is by cutting spending."

He said, "I'm not going to be satisfied to pay more taxes until I see a path to reduction." He said, "I'm not going to be satisfied to pay more taxes until I see a path to reduction."

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At state is nothing less than "our leadership position in the world," Panetta says.

He always paid in cash, recalls. "He always paid in cash, whether he was paying for my tuition at the University of Santa Clara—the Jesuits loved him. . . . Anybody who does that these days, they're a drug dealer."

Carmelo Panetta tried to raise his sons that way, too. He "kicked the hell" out of 18-year-old Leon where his younger son now has his own office, cooked, Carmelina ran the cash register and young Leon, standing on a chair, washed dishes.

The elder Panetta would close Carmelina's Café at 2 a.m. and he had open his breakfast, his son recalls. "They had very little money, very little education when they came to the United States."

The chairman of the Budget Committee is a fact that offers few tangible rewards—no projects to complete, no projects to complete, no projects to complete. . . .

Last September, Panetta spoke at the Monterey Peninsula Chamber of Commerce after the blessing of the fishing fleet. He was introduced by Jerry Lucido, who has known Panetta since the lawmaker was a boy. "He's a new chairman of the Budget Committee," Lucido said. "I only wish he wasn't going."

He's a new chairman of the Budget Committee, Lucido said. "I only wish he wasn't going."

of the size of this crisis and whether or not the public is sufficiently aware of it. . . . From the response he got last week, he knows he has his work cut out for him.

We've gotten used to the deficit," he said. "We've gotten used to the deficit." He said, "We've gotten used to the deficit."

Panetta, who became Budget Committee chairman in 1971, said the available position of not having to worry how his constituents will react to the pull to his stern spread himself.

in today's Democratic primary—he has trouble recalling the name of his challenger, a follower of Lyndon B. Johnson, who was running for the House in 1976, only one has less than 71 percent of the vote.

As budget committee chairman, he pushes for spending cuts and revenues increases—precisely the opposite of lawmakers' natural inclination. . . .

Panetta's message of fiscal responsibility has remained constant and was a focus of his efforts long before he took the chairmanship of the Budget Committee.

He entered politics as a liberal Republican, espousing a mix of social liberalism and fiscal conservatism. . . .

calls the late Earl Warren, the lawmaker's political hero whose autobiographical photograph is prominently displayed in the room's public ways.

in 1971 Panetta comes by his fiscal conservatism.

CONGRESSIONAL
QUARTERLY

JUNE 13, 1992

A Winner At Last

Leon Panetta has a history of taking on unpopular causes — and losing.

In his former life as a Republican, he ran the Office for Civil Rights in the Nixon administration. In 1970, at age 31, he was forced out by the White House for being too aggressive.

As a Democrat, he was elected to the House in 1976, served for six years on the Budget Committee and became its chairman in 1989. Since then, he has had to defend the oft-denounced 1990 budget agreement that he helped engineer. He tried — and failed — to dismantle a portion of that agreement earlier this year to shift money from defense to domestic spending. In the past month, he was for a long time a lone soldier trying to halt the juggernaut of the balanced-budget amendment. He tends to laugh a lot at adversity, and lately he's seemed to be having a rollicking good time.

He was asked at one point about Sen. Robert C. Byrd, D-W.Va., who recently began working hard to derail the balanced-budget amendment in the Senate, apparently with success. "He came to life, didn't he," Panetta said, and then guffawed, letting his laughter express his relief.

The Real Test

This time, Panetta won. But it remains to be seen if he can convince his colleagues that they should get serious about cutting the deficit in this election year. Panetta would view that as real success.

Like Bill Gradison of Ohio, ranking Republican on the Budget Committee, Panetta tends toward seriousness; he is rarely without a sheaf of papers under his arm, and he is constantly in motion.

He eschews partisanship when he can, despite the highly partisan job he holds: Presenting the Demo-



Panetta is not one to shy from a fight.

crats' budget is anything but a joint effort with the Republicans on the committee. But he does not shy from a fight — whether to defend his party's taxing and spending priorities or to battle against the balanced-budget amendment.

His hardball tactics in the budget amendment fight drew criticism from some Republicans.

The White House accused him of "crying wolf" when he put out what most consider a worst-case scenario for spending cuts and tax increases to yield the \$600 billion in deficit reduction over five years that the Congressional Budget Office says would be needed to balance the budget. (*Weekly Report*, p. 1520)

But he has his bona fides on the subject, and several members paid him respect during the amendment fight.

Panetta almost never left the floor during the two long days. At the end, his principal adversary, Charles W. Stenholm, D-Texas, commended him for his handling of the debate.

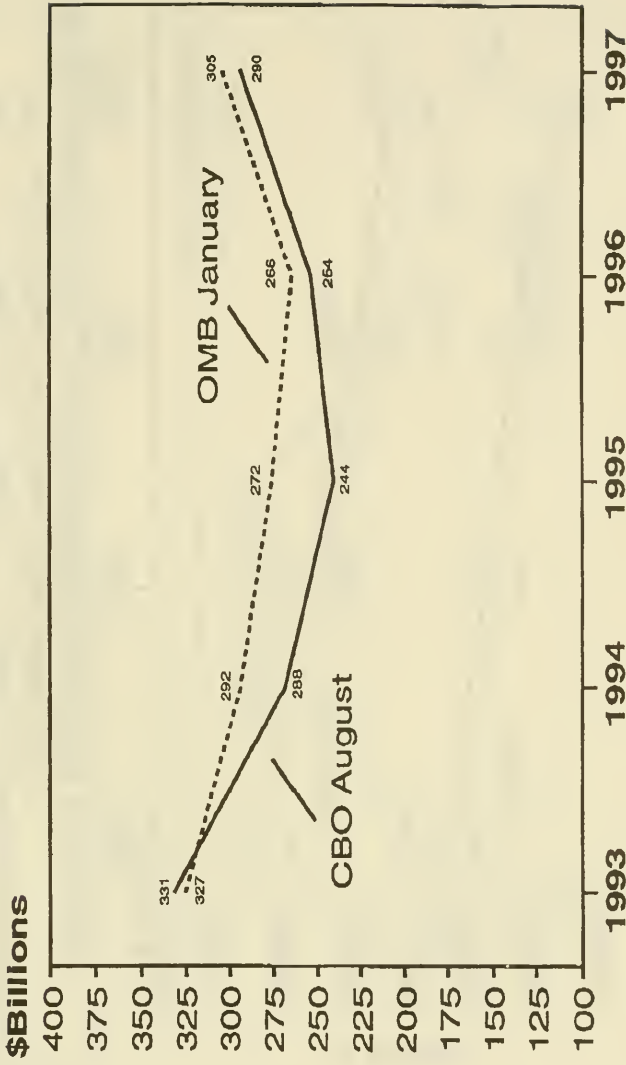
He also chided him for his effort earlier in the year to spend money that was to be cut from defense, instead of applying it to the deficit. "Mr. Chairman, you were not with us that day... But you have been with us most of the other times."

Panetta returned the compliment, paying tribute to Stenholm and others for raising the visibility of the deficit issue — and seizing the opportunity to hold members accountable for the next test.

"What we've done here is we've focused attention," Panetta said after the amendment was defeated. "Now we've got to roll up our sleeves and get to work on what I think is the effort that really counts... so that we truly exercise the discipline that we have to do if we're serious about getting the deficit in control."

—John R. Cranford

BUDGET FORECASTS

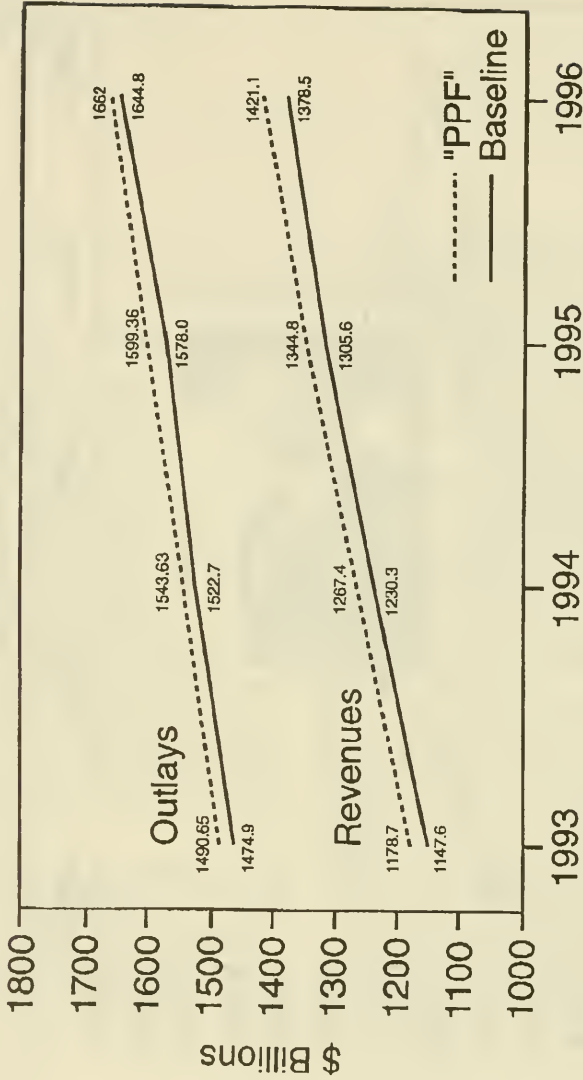


As a Percent of GNP

CBO August	5.3	4.1	3.5	3.8
OMB January	5.2	4.4	3.9	3.9

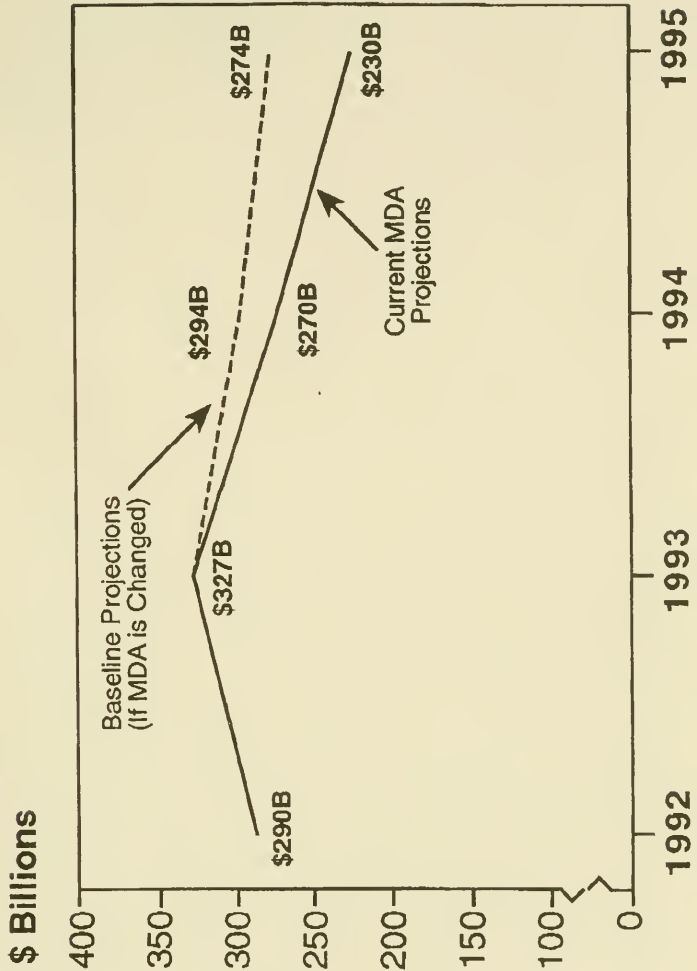
THE BUDGET

"Putting People First" vs. Baseline



		DEFICIT		
"Putting People First" Baseline	1993	1994	1995	1996
	-312	-276	-255	-241
	-327	-292	-272	-266

Deficit Projections Under Current Law Assuming Enforcement of Maximum Deficit Amount (MDA)



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